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June 2012
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How showing a little brotherly love can be an expensive proposition.

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Illustration by Ryan Etter for SmartMoney

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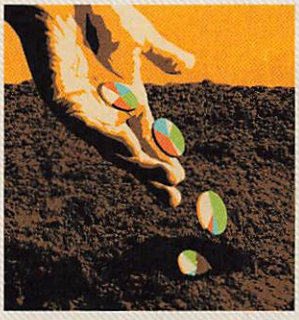

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THE WALL STREET JOURNAL.
PUBLISHED BY DOW JONES & COMPANY, INC.

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NOT THAT YOU ASKED FOR ONE, but you may have a new friend these days. He won't hesitate to text you or send a message on Facebook. Other times, you may get an alert from him on your smartphone. And like a friend with boundary issues, he may even try to give you some financial advice, encouraging you to get more active in the stock market.

This friend, of course, is your stockbroker. SMARTMONEY has been tracking the brokerage industry in our award-winning annual survey for almost 20 years, and we've seen plenty of trends come and go. Right now, it's all about "outreach," with a consistent goal of getting clients who are still skittish from the crash to play the market once more—and, not coincidentally, to start paying for trades, advice and other services again. In this year's survey ("Text, Tweet, Trade," on page 52), we take a fresh look beyond the gadgets and sales pitches. But, as always, we keep our eyes on the prize, figuring out which brokers are the best—and the worst—at their trade.

YOU FIGURED YOU WOULD have to help your adult kids in this tough economy. Perhaps a parent or two as well. But what about your sister or brother? In a still-shaky economy, siblings are turning to each other for financial bailouts and, in some cases, creating an unexpected burden for baby boomers, especially those from large families. In the latest of her insightful articles about the boomer generation, senior editor Missy Sullivan explores the phenomenon and shows how wiser siblings are coming up with ways to help out—but with limits. The story, "The Sibling Sinkhole," begins on page 60.

BARGAIN BROKERS: Trading fees are at an all-time low. But brokers hope you'll splurge on high-tech extras. **Page 52**

COSTLY SIBLINGS: A surefire way to make a family reunion more awkward: Lend money to your kid brother. **Page 60**

WALLET-FRIENDLY WEDDINGS: To dodge sticker shock, more couples are tying the knot guerrilla-style. **Page 82**

COLUMNIST ILLUSTRATION BY ALEXANDRA COMPAIN-TISSIER/ART DEPARTMENT

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Feedback

Letters, Tweets and Blog Posts From Our Readers

9 to 5 @ 75
Midnight commutes. Brain fitness exercises. Second careers as bloggers. The first wave of boomers are starting to cope with the new reality of long delayed retirement. Are they writing the playbook for future generations?
BY ANNE KADET

Loving (Work) Life

Fit and healthy at 60, I want to work for a long time—I enjoy it ("9 to 5—at 75," April). I don't have to; I have enough money to retire. However, age discrimination is real. I'd work for less, but it's usually not a matter of money. The employment market is broken. There are a lot of good potential employees going without opportunities today—that's a drain on national productivity.

—Alan Wells
Memphis

Your article highlights that retirement planning really hasn't come as far as many had hoped. Those huge drawdowns and drops in housing prices put the brakes on retirement for many. It also shows the need to have a great savings plan and to be able to make trade-offs in life. Sometimes, working for less money leads to happiness; sometimes, it requires you to work into your 80s. —Karl Nygard
Seattle

Currency's Costs

In your story on playing the currency markets ("Currency Conundrum," April), Jasmine Wang quit her family business to trade currencies full-time. She admits a loss of $50,000 in her first year, but said she made $15,000 in 2011. The inference is that she (at best) made less than $15,000 in the intervening years, or basically has no profits to show after five years of trading. Thank you for the best testimonial I have seen for staying with stocks and traditional investments. —Chuck Yanus
Crossville, Tenn.

More Yield? More Risk, Too

I'm glad to see some moderation being brought to an investment that is too good to be true: master limited partnerships (New Retirement, April). When interest rates are so low, investors can get desperate and be driven by a narrow set of criteria (i.e., yields). The basic rule is that if you are getting additional yield, you are probably taking on more risk.

—John Bevacqua
Hartsdale, N.Y.

Correction

A chart in "Too Big to Succeed" (May) used the wrong benchmark for the BlackRock Global Allocation fund; it should have been compared with "world allocation" funds, which it also trailed (2009-11).

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INVESTING

ROI

Which investments are undervalued and poised to grow? How can you make your portfolio more cost-effective? In his weekly column for SmartMoney.com, inveterate bargain hunter Brett Arends looks to answer these questions and more.

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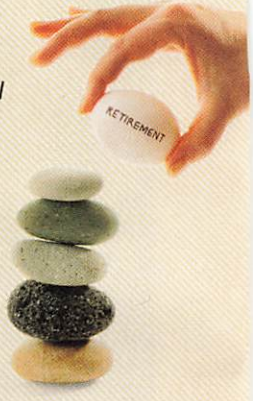
RETIREMENT

Encore



In this blog, award-winning writers from SmartMoney and *The Wall Street Journal* tackle the increasingly complicated matter of planning for (and living well in) retirement—covering everything from 401(k)s to long-term care and estate planning.

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THESE TOURING GOLF PROFESSIONALS HAVE GONE BALLISTIC

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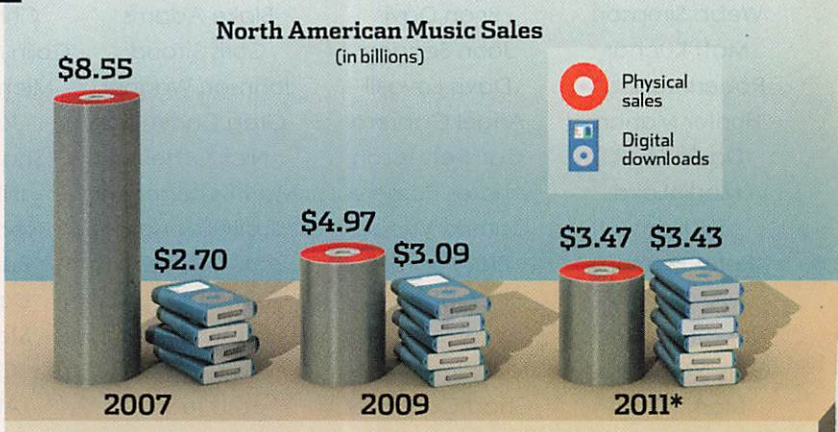
Record Profits

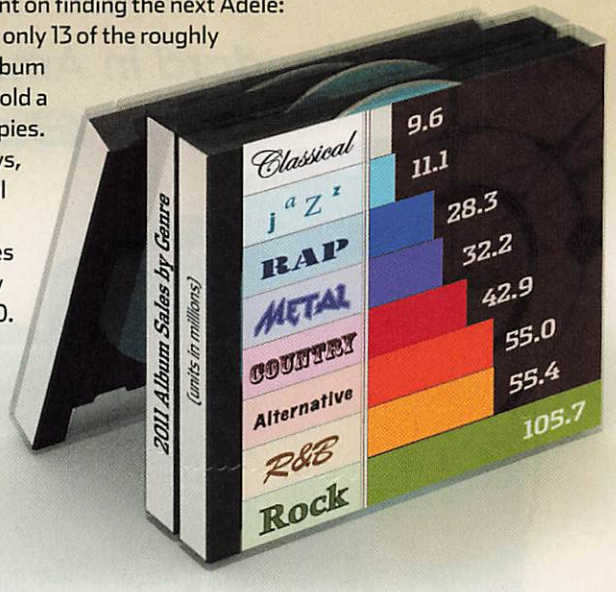


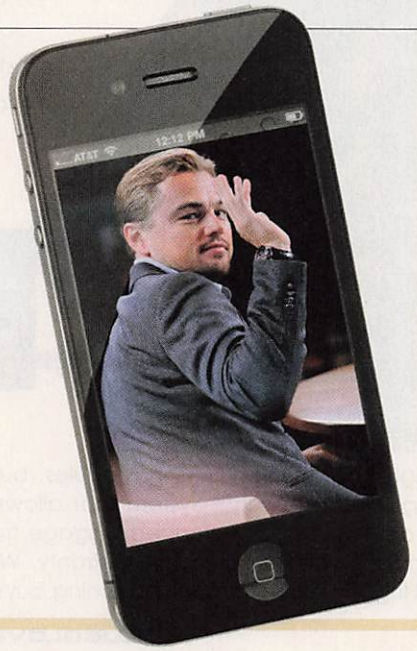
It's never been easier to start a record label—and never been harder to make it pay. The Internet has changed the tune of the music business, slashing the cost of recording and publishing but also giving rise to piracy that's gobbled up billions in sales. There are bright spots, such as fast-paced revenue growth by digital-music services like Pandora and Spotify. But Paul Resnikoff, publisher of website Digital Music News, doesn't mince words about the industry's prospects. "It's a great place to lose money," he says.

On the B side, the struggles of "the majors"—giant labels like Warner and Sony—have opened doors for smaller players, says Rachel Flotard, whose Local 638 Records has issued seven albums since 2009. The costs of putting out an album are relatively modest; expect to spend at least $10,000 or so to record it, $1,000 to $6,000 a month for a publicist and $1,000 to print CDs. (Getting your opus on iTunes usually costs less than $100.) With the band and the label splitting everything, it's possible to break even by selling just 2,000 to 2,500 copies at $10 a pop. A few lucky media mentions could help an album catch fire, but producing hits is notoriously difficult. "It's like the weather," says Flotard. "One year it's terrific; the next you're broke." —*Ian Salisbury*

A Niche Audience

Don't count on finding the next Adele: Last year, only 13 of the roughly 77,000 album releases sold a million copies. These days, successful records sometimes sell as few as 50,000.





DiCaprio's App Inception

Leo's Shot: It's tough to be a Hollywood cool kid these days without your own tech investment (see Kutcher, Timberlake, et al.), so it's no surprise Leonardo DiCaprio has claimed a seat on the start-up bandwagon. The actor is an investor in mobile-photo platform Mobli, which labels people's snapshots and videos by subject or location. Members can follow other users or keep tabs on a specific tag, like "baseball" or "concerts." (Part of its appeal, say analysts, is following celebrity users like DiCaprio and actor David Arquette.) The company says DiCaprio, who declined to comment through his publicist, contributed substantially to a

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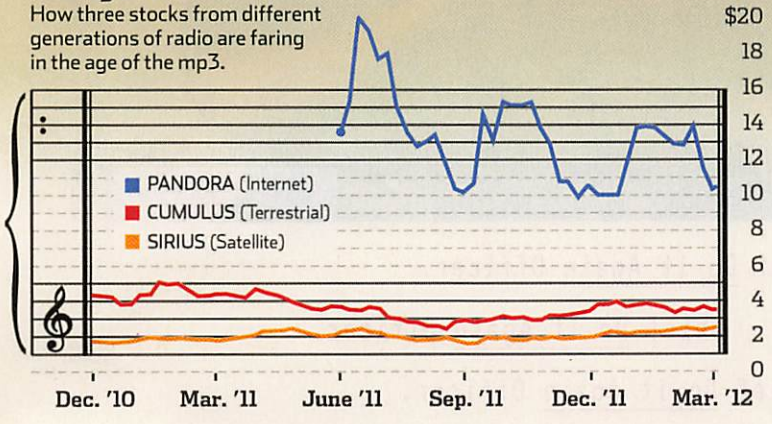
Infographics by Emily Cooper for SmartMoney

Tuning Out

How three stocks from different generations of radio are faring in the age of the mp3.



*Estimated. SOURCES: IFPI; NIELSEN SOUNDSCAN; PRICEWATERHOUSECOOPERS; WILKOFSKY GRUEN ASSOCIATES

$4 million seed round of funding last fall.

How He Framed It: Ever ask the owner of your favorite company for a sit-down? Well, you're not DiCaprio. Mobli founder Moshe Hogeg says DiCaprio saw fellow actor Lukas Haas using the app, liked it, and simply called Hogeg and asked to meet the team. He ended up joining Mobli's advisory board, and Hogeg says he soon started to suggest tweaks for the product. The company won't elaborate on DiCaprio's input, but says some of his ideas have been incorporated into the app.

Snap Your Own: Investing in a start-up is always a risk, but experts say mobile tech is one of the better bets: Smartphone users now spend an average of 94 minutes on their apps per day, according to analytics firm Flurry. But not everyone can be the next Angry Birds. Amish Jani, a managing director for New York venture capital firm FirstMark Capital, says the strongest apps tend to have high user-retention rates and a strategy for making money, but he warns that there's no guaranteed formula for success. *—Tania Karas*

Treasure Hunt

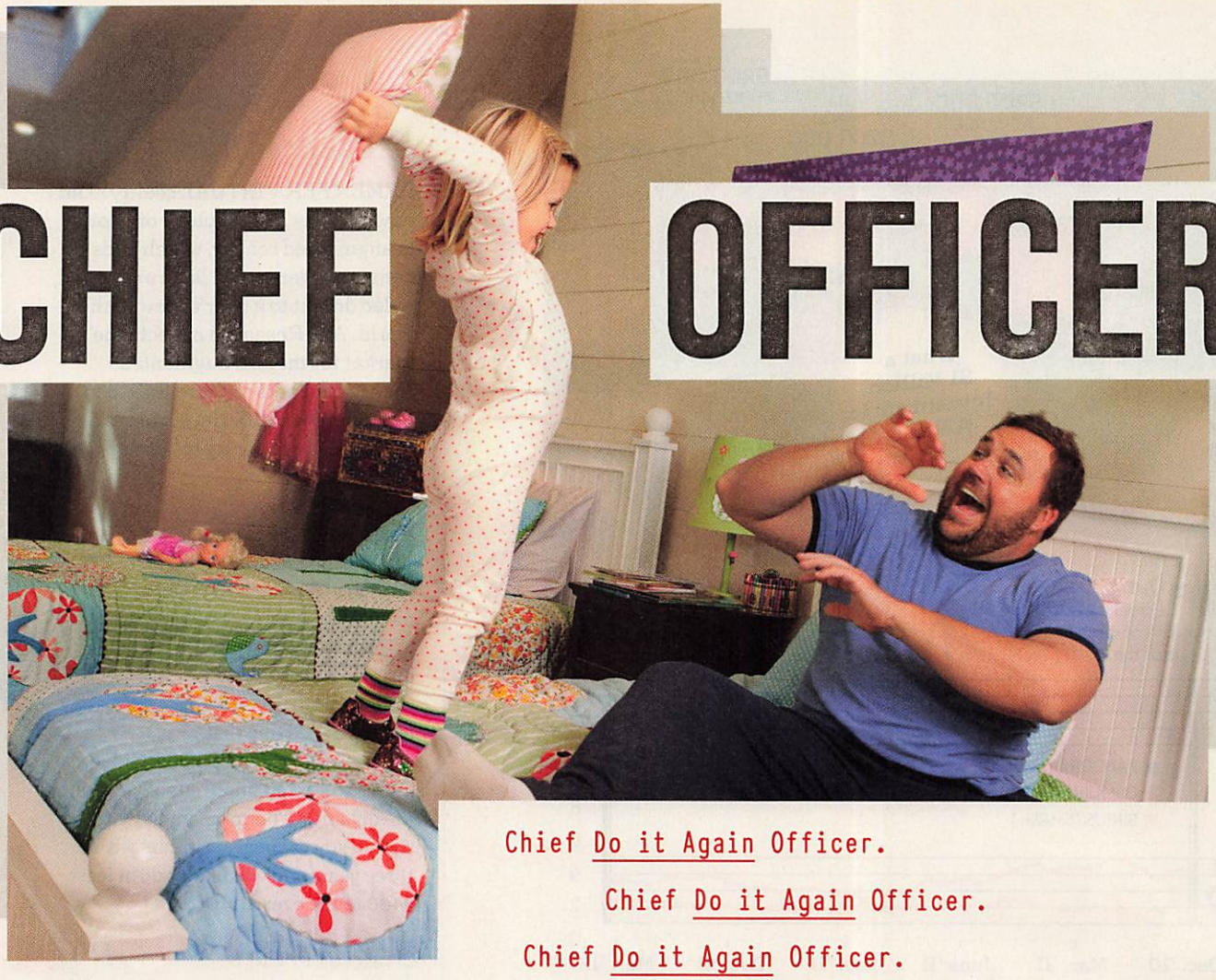
REMEMBER VIRTUAL reality? Old news. Today's technology of choice is augmented reality, which adds computer-generated layers of sound, video or text to a user's view of the world. ABI Research expects the market for mobile-augmented-reality products to grow sixfold to $3 billion by 2016. Here, how some companies are trying to get real:

ROAD SHOW. San Francisco firm Making Virtual Solid upgrades ordinary GPS navigation with a 3-D windshield display. Directionally challenged drivers can follow the red line that appears on their windshield, which seems to stretch hundreds of yards into the distance. The company says it should start appearing in cars within three years and will likely add at least $400 to the overall cost.

SMARTER PHONES. Wikitude World Browser re-creates the world on a smartphone screen, marking ATMs, stores and many other points of interest. The firm, which makes money through licensing and ads, says the number of installations of the free app has nearly tripled in the first three months of 2012.

SHOOT ON SIGHT. Video-eyewear maker Vuzix used a military grant to develop glasses that create holographic pictures soldiers can use to home in on targets. The eyewear also enhances night vision and uses facial-recognition software. Vuzix says the product will cost between $3,000 and $15,000. *—Linda Lacina*

CHIEF OFFICER



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The admiral who leads General Dynamics.

Illustration by Daniel Hertzberg for SmartMoney

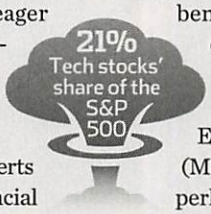
The Reignited Tech Sector

Technology stocks have rebounded and are once again the darling of the market. Can the resurgence last?

By J. Alex Tarquinio

BY THE END OF 2000, Americans had ended their love affairs with a lot of fads. The "Whassup?" beer ads, the singing Big Mouth Billy Bass, colored ketchup—all were loved, then quickly forgotten. But even after the tech bubble burst disappointed countless investors, one never got the sense that Americans ever fell completely out of love with technology stocks. So perhaps it's not surprising that after nearly a decade of staying away from them, investors are willing to give their old darlings another shot. And this time, according to some analysts, there's reason the romance might last.

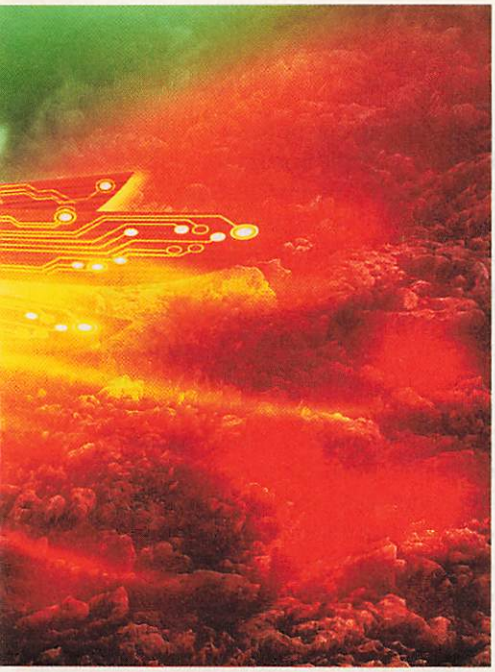
In the words of David Darst, chief investment strategist at Morgan Stanley Smith Barney, tech stocks have "come alive." After a tremendous run over the past six months, tech stocks make up nearly 21 percent of Standard & Poor's 500-stock index. That's well above the 15 percent they accounted for in 2007. The charge has been led mostly by consumer-centric tech names like Apple (AAPL). Such firms have proved particularly adept at expanding into fast-growing emerging markets, where eager customers from Brasilía to Beijing have been lining up around the block for iPads and other hot gadgets.



That's hardly surprising, experts say, because ever since the financial crisis in 2008, corporations have tightened their purse strings, spending less money on what they call "capital expenditures," such as mainframe computers, software upgrades and data storage. But the next tech bull run might be in the shares of firms that cater to corporations. Experts say corporations need to refresh their technology every few years to remain competitive in their industries. "It is like driving a car that was okay at five years, but after eight or 10 years, you need to replace it," Darst says.

Technology analysts predict that demand will pick up all along the supply chain for computers, data storage and IT infrastructure. A historic transition is under way both in developing countries—which are investing in more computers—and in developed countries, where data storage is moving from old desktop computers and office servers to the Internet, or "the cloud," as it's known in the industry. Many of the companies that could benefit from these trends are the old blue chip tech stocks that have been mostly dormant for years, such as Intel (INTC), EMC (EMC) and Microsoft (MSFT), but which have started to perk up this year. "As CEOs become

Illustration by Ryan Etter for SmartMoney



more confident, they are more likely to spend money on capital expenditures," says William Delwiche, an investment strategist at Robert W. Baird.

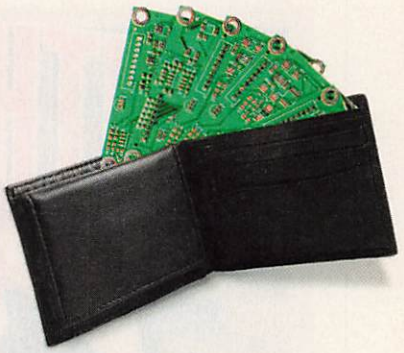
The best news about the tech-stock romance this time around, some money managers say, is that it isn't burning too bright, too fast. Joseph Tanious, global market strategist at J.P. Morgan funds, says that, unlike at the height of the dot-com boom, many tech stocks still have attractive valuations. Yes, there are a smattering of red-hot darlings that sport valuations that are 1999-esque; social networking firm LinkedIn (LNKD), for instance, has a price/earnings ratio of 890. But this time around, those lofty valuations are more the exception than the norm. The average P/E for S&P 500 technology stocks is about 16, only slightly higher than that of the broader market.

Indeed, some experts say that the stocks have been held back because of lingering bad memories of the now-long-ago tech bust. Tanious says many of today's companies in the sector are more mature than those of the go-go era, hold more cash on their balance sheets and—something that was almost unheard of in 2000—actually pay dividends. "They've gotten better at making money," he says.

Yet the shareholders of many tech-sector funds might be wondering, "Where's the love?" The average return for actively managed tech-stock funds was about 8 percent last year, far behind the 15 percent return for the tech-stock-heavy Nasdaq. Experts attribute this disconnect to one stock: Apple, which has climbed to nearly 20 percent of the Nasdaq's market capitalization. Most stock fund managers aren't comfortable putting 20 percent of their portfolio into a single stock, and many are restricted from putting more than, say, 10 percent into one holding, making it tough for money managers to keep pace with an index that has become dominated by a single stock. (Since the beginning of this year, the tech-sector funds have kept pace with the index, despite having an average holding of 9.5 percent in shares of Apple.)

Some fund investors have clearly been at a loss over how to respond to this dilemma. Last year, shareholders withdrew more than $4 billion from actively managed tech funds. But in the first three months of this year, they piled $4 billion back into the sector, bringing the funds' total assets to around $28 billion. Flynn Murphy, a mutual fund analyst at Morningstar, says some tech managers have been scouting eagerly for undervalued and unloved stocks—another big difference from the dot-com age, when few managers embraced the value mind-set. In those days, of course, metrics like "eyeballs" and website "stickiness" were cited in lieu of P/E ratios.

But then, even if tech stocks are on firmer ground this time around, investors might not want to double down quite yet. Murphy points out that many people already have plenty of exposure to tech stocks, especially if they own broad-based index funds or exchange-traded funds. Also, with the tech sector once again making up a large portion of the S&P 500, some experts say a separate technology-stock portfolio is not necessary for everyone. For many investors, an S&P 500 stock fund or a Russell 2000 stock fund "is already giving them a reasonable exposure to the tech sector," Murphy says.



NEW TRICKS FROM TECH'S OLD DOGS

After years of tightening purse strings, corporate chieftains need to spend freely on technology again to remain competitive, says David Darst, chief investment strategist at Morgan Stanley Smith Barney. He says some old-guard computer stocks might be the biggest beneficiaries of this pent-up demand.

Software: Microsoft's P/E of about 11 and its 2.8 percent dividend make it a value stock, experts say. Morgan Stanley expects the company's new Windows 8 operating system to be a hit with business customers.

Consulting: Once the king of computer hardware companies, IBM (IBM) makes more money telling firms what to do with computer gear than actually selling it. Big Blue has the endorsement of Warren Buffett, who recently said that the stock had become the second-largest holding in the Berkshire Hathaway portfolio.

Meanwhile, Down South

Latin American stocks are on a (mostly unnoticed) tear. But pros say there's still room for growth.

By Ian Salisbury

CHINA'S ECONOMY, and whether it's slowing down or even crashing, is the dominant topic in many investing circles these days. Indeed, the worries about the world's No. 2 economy are overshadowing the fast-growing economies—and stock prices—in Latin America. The good news, some money managers say, is that investors can, with a little bit of selective stock picking, still take advantage of the growth in Chile, Brazil and other nations.

Latin American stocks, which compose about 20 percent of the emerging-market economies by market value, have been surging lately. Since the beginning of the year, the MSCI Emerging Markets Latin America index is up 10.5 percent, compared with 4.1 percent for Chinese stocks. Brazil's economy is expected to grow 3.6 percent this year, Chile's 4.7 percent and Peru's 5.6 percent. But it would be a mistake, pros say, to rely on many of the Latin American commodity firms—oil producers, copper miners and the like—whose stock prices have soared over the past decade. Much of their products wind up fueling China. If China's growth does indeed slow down, those commodity firms would quickly feel the effects. Instead, these pros say, aim for stocks of firms that target the burgeoning Latin American middle class.

$1.4 tril. Stock market value of Brazilian firms

Money-management firm T. Rowe Price has been shifting away from materials stocks to consumer firms, such as telecom company América Móvil (AMOV), which is based in Mexico but does extensive business throughout Latin America. The firm also is bullish on Brazilian department store chain Lojas Renner, which stands to benefit as more Brazilians enter the workforce and get wealthier. "It's like J.C. Penney 30 years ago," says Todd Henry, a vice president at T. Rowe Price.

While Latin American stocks aren't necessarily dirt cheap, Josh Stewart, co-manager of the $117 million Wasatch World Innovators fund, says there are still bargains to be had. Among his favorites: Arcos Dorados (ARCO), which owns the franchise rights to McDonald's throughout much of Latin America (the firm's name is Spanish for Golden Arches). It trades for 23 times its estimated 2012 earnings; that isn't particularly cheap, but Stewart is focused on a different ratio: Arcos operates about 1,800 restaurants—that's roughly one McDonald's for every 330,000 Latin Americans. Considering there's one Mickey D's outlet for every 22,000 Americans, Arcos may have many more Happy Meal moments to come.

Illustration by Chris Lyons for SmartMoney

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"If both stocks and bonds are expensive, a 'balanced' portfolio may not work."

33%
Money lost by a 60% stock, 40% bond portfolio (1972–74)

BRETT ARENDS is a contributing editor at SMARTMONEY. His latest book is *Storm Proof Your Money.*

WHAT IF EVERYTHING your investment adviser is telling you is wrong?

Look at the mutual fund choices your company is offering in your 401(k) plan. Look at the portfolio of those "target date" funds you're supposed to rely on, with their long-term-return forecasts and their so-called glide path to retirement. Look at the asset-allocation plan your financial adviser has drawn up.

Chances are, when you cut through the jargon and the spin, they're all based on one big assumption: that a balanced portfolio of stocks and bonds, rebalanced regularly, will see you through whatever comes next.

Could that analysis be off base? "It can't be," say the investment advisers. "Look at the data! Going all the way back to the 1920s, a standard portfolio of 60 percent stocks and 40 percent bonds, rebalanced regularly, would have made you about 8 percent a year. And if you had taken on more risk, by owning more stocks and fewer bonds, you could have earned even more.

"So don't worry about the market, and volatility. If stocks go down, your bonds will go up, and vice versa. Just create an appropriate portfolio of the two, based on your age and risk tolerance, and rebalance it once or twice a year. You'll do just fine."

Sounds good, right?

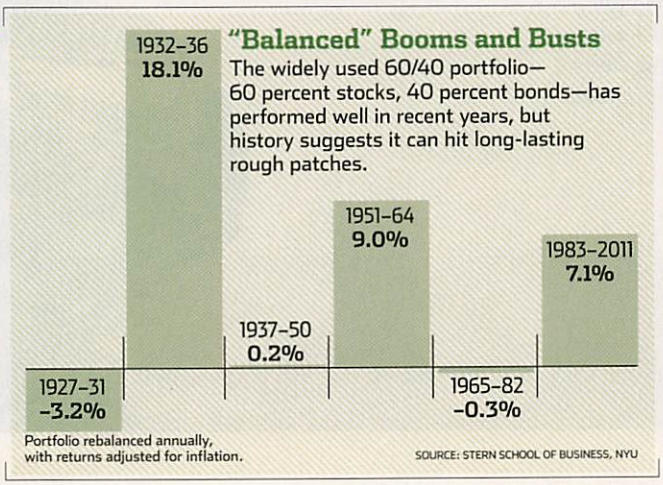
Here's the problem: This entire strategy is based on a dubious reading of history, a misrepresentation of the facts and a fair amount of sleight of hand. And it's terrifying to think that so many people are relying on it nonetheless.

I never cease to be amazed at what passes for logic and historical analysis in the finance industry. With a click of a mouse, analysts extrapolate the future from the recent past. They claim to derive universal rules from a few decades' data. They ignore the costs and problems of the real world. They gloss over averages, hide behind mumbo jumbo and pile circular arguments upon non sequiturs to build their case. And these are your life savings they are putting at risk!

And do not take false comfort from the fact that so many people in finance say the same thing. Their marketing departments are telling them to push conventional products, because those are the easiest to sell. And their lawyers are telling them to push the same thing as everyone else—so if things go wrong, they're covered. Performance? That's not their problem.

Here's the ugly truth. Contrary to what you are being told, this 60/40 portfolio of stocks and bonds comes with no guarantees. There have been long periods during which it has done very badly.

And why should we be surprised? There is nothing magic about stocks or bonds. They are just investments. A balanced portfolio of the two makes you money only if one, or both, is reasonably valued. In the early 1980s, they were both cheap. Today, in an environment where by some measures both look expensive, all bets are off.


"Balanced" Booms and Busts
The widely used 60/40 portfolio—60 percent stocks, 40 percent bonds—has performed well in recent years, but history suggests it can hit long-lasting rough patches.
1927–31 −3.2%
1932–36 18.1%
1937–50 0.2%
1951–64 9.0%
1965–82 −0.3%
1983–2011 7.1%
Portfolio rebalanced annually, with returns adjusted for inflation.
SOURCE: STERN SCHOOL OF BUSINESS, NYU

COLUMNIST ILLUSTRATION BY ALEXANDRA COMPAIN-TISSIER/ART DEPARTMENT

For more of Brett Arends's ROI columns, visit SmartMoney.com.

First, look at the present situation. U.S. stocks, after a three-year boom, are now at very high prices compared with dividends, the replacement cost of company assets and the past 10 years' earnings—three measures with a decent track record of predicting long-term performance. As for bonds? Their yields are desperately low, especially when compared with inflation. It's hard to argue that either asset class is cheap.

What about the track record? I took a look at the data, as compiled by the Federal Reserve and analyzed by New York University's Stern School of Business. I created a hypothetical 60/40 portfolio and tracked it over the past 85 years, rebalancing it annually.

My analysis? That "average return of 8 percent" is full of holes. First, it ignores inflation. Adjust for that and you're left with just under 5 percent a year—a big difference. Second, the "average" return is meaningless. Most of the gains came in two booms: during the 1950s, and in the past 30 years. For many other periods, the returns were meager, or nonexistent.

Sure, a 60/40 portfolio delivers an average return of 8 percent a year. Factor in inflation, though, and that drops to just under 5 percent a year. Or look at the 1970s, when the strategy left many with losses.

From January 1, 1937, through January 1, 1950, a period of 13 years, this surefire 60/40 portfolio, rebalanced annually, earned you absolutely nothing after inflation. Zip. The story was the same from 1965 to 1982—a slump that lasted nearly two decades.

In the real world, investors did even worse than zero. They paid trading costs, fund-management fees and taxes. Many just gave up along the way. Meanwhile, toddlers grew to college age, and middle-aged couples reached retirement. And the money they were counting on wasn't there.

The bottom line: In the decades leading up to the early 1980s, the record of the 60/40 portfolio was decidedly mixed. Yes, the returns of the past 30 years have been gigantic. But to include those blithely in your forecasts is to engage in a circular argument: "They have skyrocketed in price, so you should buy them!" Of such nonsense was "Dow 36,000"—and the Las Vegas real estate boom—made.

Where does this leave investors now? "There is no magic answer," says Charles de Vaulx, a money manager at

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International Value Advisers in New York. "But one has to look beyond stocks and bonds. One needs to consider TIPS [Treasury inflation-protected securities], gold, commodities and cash as well." John Hailer, CEO of fund company Natixis, says investors should look into "alternative strategies," such as those involving derivatives. "There are other ways to mitigate risk than just being in stocks and bonds," he says. But that raises the challenge of performance and costs.

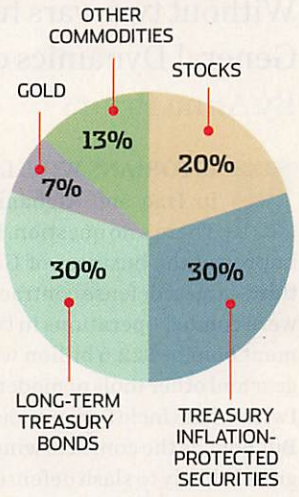
In a recent paper for the Investment Management Consultants Association, Alex Shahidi, an adviser at Merrill Lynch, argued that passive, low-cost investors should jettison the 60/40 conventional wisdom for a portfolio of 20 percent stocks, 30 percent long-term Treasury bonds, 30 percent TIPS and 20 percent commodities. Since 1926, he calculates, this asset mix has produced the same overall return as a 60/40 portfolio, but in a far steadier way, with fewer down years. This mix has its own issues. TIPS and commodities aren't cheap either these days. Both have risen a long, long way in recent years. But at least investing in four expensive assets instead of two may help your odds.

If you want to follow an approach like this, de Vaulx recommends splitting the commodities allocation in two—with 7 percent to gold bullion and 13 percent to the rest. Two other strategies may also help: choosing a truly global stock portfolio over just a U.S. one, and investing money over time, so that you catch the lows as well as the highs.

If there is no perfect solution, that is in the nature of the markets. But investors need to be braced for the possibility that the fund industry's simplistic solutions, as well as its optimistic forecasts, come with absolutely no guarantees.

A NEW BALANCE?

Some money managers say a balanced portfolio needs to include more than just stocks and bonds to give investors reliable returns. One possible asset-allocation model:



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A New Defense

Without two wars fueling business, General Dynamics changes tactics.

By Anna Prior

HISTORIANS WILL LONG debate whether the wars in Iraq and Afghanistan helped or hurt the U.S. There's no question, however, that the two conflicts improved the business of General Dynamics, the nation's third-largest defense contractor. In 2011, the final year there were combat operations in both countries, the U.S. government bought $22.6 billion worth of guns, communications gear and other tools of modern warfare from the company—twice what Uncle Sam purchased when the Iraq War began. But now, as the conflicts wind down, some experts say Congress is likely to slash defense spending. The result: General Dynamics CEO Jay Johnson, a retired four-star admiral, must devise a new corporate battle plan. "The situation is dynamic and disquieting," he says.

The firm's future is clouded not only by the end of the wars but also by a political version of the fog of war, analysts say. The failure of last summer's deficit talks triggered an automatic budget-cutting process—which, if not altered, will result in a 10-year, $500 billion defense cut starting in January. That mandatory cut, says David Rowlett, a T. Rowe Price aerospace and defense analyst, would be "the worst-case scenario" for General Dynamics.

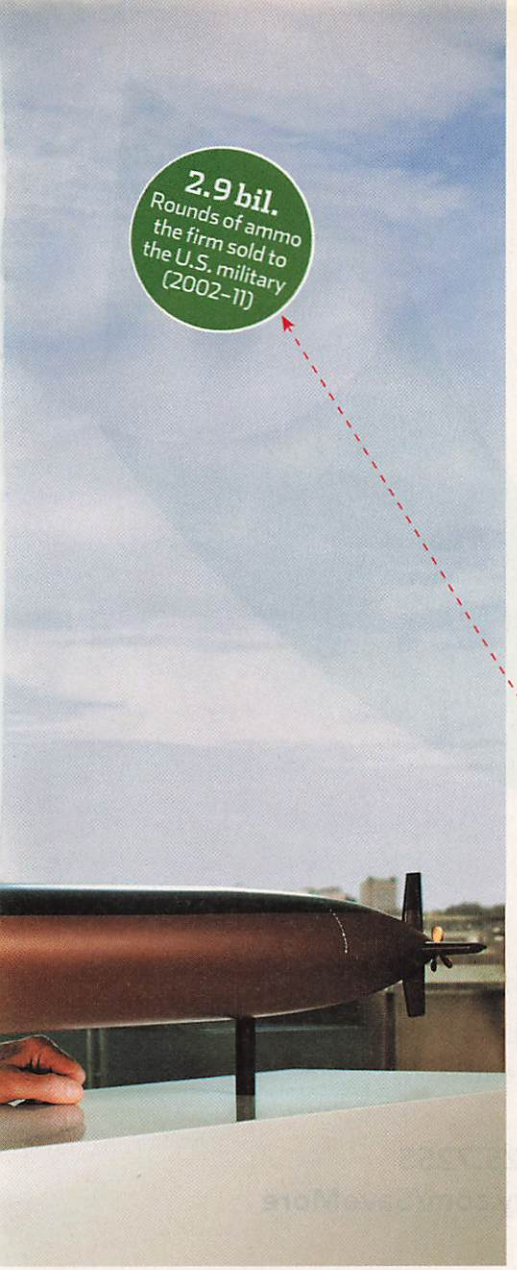
For his part, Johnson, a Vietnam War–era fighter pilot who served on the Joint Chiefs of Staff, says his company has been planning for cuts in military spending for "quite some time." One component of his strategy involves focusing the firm more on ships and submarines, a business General Dynamics (and its predecessor) has been in for more than a century. The company is also getting a boost from its thriving Gulfstream private-jet business, says Richard Tortoriello, aerospace and defense analyst at S&P Capital IQ. Another factor in the company's favor: U.S. law. Statutes on the books since the late 1920s require the government to keep the military at a certain level of readiness, a rule analysts say essentially guarantees that the Pentagon isn't going to cut spending entirely.

Nevertheless, General Dynamics' 65-year-old boss will be spending much of his time this year preparing his company in case those big cuts come to pass. At the firm's headquarters in Falls Church, Va., Johnson talked about submarines, dealing with China, and how this budget battle might be his last.

Do you think these automatic spending cuts will happen?
No one on earth, as of this moment, can declare with certainty how it's all going to turn out. I'm not going to solve the problem today, but we're agile enough, so we'll deal with it. It helps that we are very efficient at every level—from elemental things like how you negotiate contracts to how complete a design is when we actually start bending metal.

What about replacing the revenue lost as a result of the end of the Iraq and Afghanistan wars?
We're very disciplined about things like cost control, continuous improvements,

Photograph by Stephen Voss for SmartMoney



efficiencies and the agility of our business. And this is a threat-based military, so it always has to be ready to respond. Fundamentally, we are relevant to the fighting force, and that will remain so even in a declining defense budget.

Will international sales help offset some of that decline?
Yes, international sales in our combat-systems group was 34 percent of that group's sales last year, and it's probably going to be close to 40 percent in the next three or four years. We sell through the U.S. government to foreign countries; there are rules and regulations that we comply with in all of those spaces.

Are you putting more focus on the shipbuilding business, too?
I believe shipbuilding will be a very steady business for General Dynamics. Submarines and surface combatants, like destroyers, are our stock and trade. There's a lot of water out there, especially in Asia Pacific, and a huge part of global commerce moves by sea. So freedom of the seas and unimpeded trade are hugely important to the global economy, and the U.S. Navy has been a part of that for a long time. That will not change.

In Asia, is the main issue China?
Yes, but I don't view China today as a threat, if you will. But you have to be very cognizant of what other navies are doing, what other militaries are doing, and respect both their scale and capabilities—and make sure you always keep yourself at the leading edge of that competition curve.

Private jets have been a growing business. Who are the primary buyers of Gulfstreams?
They are primarily private companies and individuals, and last year, 70 percent of orders came from outside North America. We are also starting to see a return of large U.S. publicly traded companies, which I think is very healthy.

Corporate executives were vilified for using your jets a few years ago.
They've taken a lot of abuse, mostly politically inspired, but I would tell you that we're very gratified to see the North American market starting to return.

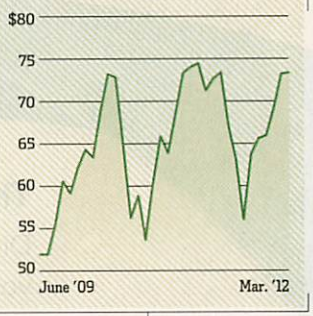
General Dynamics recently appointed Phebe Novakovic as its president and chief operating officer. Is she being groomed to take your place one day?
It's an affirmation of how serious we are about planning and the depth of our bench. And whether Phebe will end up as the CEO, you'll have to ask the board of directors; but it certainly doesn't take much to figure out that if she's coming in as the president and COO, she's probably in a strong position.

A WIDE RANGE OF WEAPONRY

General Dynamics' $32.7 billion in annual sales comes from an assortment of firepower, including Gatling guns, Stryker combat vehicles and the new, 377-foot Virginia-class attack submarine.

GENERAL DYNAMICS (GD)

PRICE
$69



EST. 2012 NET INCOME
$2.6 bil.

EST. 2012 EPS
$7.33

EST. 2012 P/E
9

MARKET VALUE
$24.9 bil.

Data as of 4/11/12. SOURCE: BLOOMBERG

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PICK

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Why some "sleepy" firms are growing fast.

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Can an ETF really capture the buzz of an IPO?

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Two strategies to capitalize on mobile payments.

Illustration by Daniel Hertzberg for SmartMoney

The Stealth-Growth Stocks

Even firms offering decidedly unsexy products and services can grow quickly, pros say. But the best prospects aren't easy to find. By Elizabeth O'Brien

5% Return on consumer-staples stocks in the first quarter of 2012

THERE'S NOTHING innovative about a hamburger. No matter what a chef does to one, it's still a slab of beef and some condiments nudged inside a bun—a product that's been around since at least the late 19th century. There's nothing particularly sexy about a fast food joint that sells those burgers either—or for that matter, a makeup manufacturer or a water utility. But while the stock market buzz is ever focused on companies that make and sell the next new, new thing (see "The Reignited Tech Sector," page 16), some pros say investors can do well by selectively buying up shares in businesses that do boring stuff— but whose sales and profits are quietly rising from quarter to quarter.

Call them "stealth" growth stocks, companies that have a steady history of expanding, even though they offer a product more likely to be found at, say, a truck stop than at Best Buy. Typically, the firms who make and sell such everyday things (known as consumer staples), or that distribute essentials like power or water (utilities) tend to be more recession-resistant, so it's no surprise that investors flock to such stocks when times are tough. But with the economy now regaining steam, both of these groups, on the whole, are being ignored, as sectors like financial services, information technology and consumer discretionary (each up by at least 13 percent) tear up the Street. And that long-term pattern, say analysts, might offer investors an opportunity. For while those workaday stocks "are easy to dismiss," says Michael Sansoterra, lead manager of the $315 million RidgeWorth Large Cap Growth fund, they contain some under-the-radar rockets.

For the most part, such stealth growers have been boosting profits—not by trimming costs, but by selling more stuff (often at higher prices). For instance, sales at cosmetics company Estée Lauder are up 13 percent over the past year, an impressive feat, analysts say. The double-

Photo-illustration by Ann Cutting for SmartMoney

digit sales growth in its skin-care line, moreover, is a particularly good sign, says Sansoterra. "When you get a company that can do that," he says, "it doesn't matter that it's a staples company." Investors should look for firms that can grow at a faster rate than their sector peers, regardless of how their stocks might be labeled, says Brian Jacobsen, chief portfolio strategist of the Wells Fargo Advantage funds, which manages $213 billion.

Some of these familiar names wind up strong long-term performers as well. McDonald's stock, for example, is down slightly in 2012, but its five-year history tells a different story: Shares of the burger behemoth have returned nearly 150 percent after dividends—the broader market, just 6 percent. Margie Patel, senior portfolio manager of the $525 million Wells Fargo Advantage Diversified Capital Builder fund and a shareholder, likes how the chain has added specialty coffee and other menu items, all of which helped boost sales 12 percent in 2011 over 2010.

But experts say investors can't just jump on every burger chain and makeup maker. Sansoterra says he winnows the list by focusing on companies that generally exceed investors' sales and profit expectations. He also favors firms that either offer a product or services that shakes up their markets or that can benefit from long-term trends, such as the growing affluence of consumers in developing countries. Indeed, success abroad has contributed to strong sales growth at Estée Lauder, which gets more than half of its sales from abroad. John Osterweis, meanwhile, thinks he has found his stealth growth on the big screen. The chief investment officer of Osterweis Capital Management likes Cinemark Holdings, a movie-theater operator in Plano, Texas. Competition from firms like Netflix has convinced investors that the movie-theater business is "at best mature and at worst dying," he says, yet the company is posting mid- to high-teen sales growth in Latin America.

Smart Picks

Some pros say investors can find firms that are growing profits quickly—even in sectors not known for runaway growth.

PHILIP MORRIS INTERNATIONAL (PM, $88)
This cigarette manufacturer (spun off from the Altria conglomerate in 2008) gets all of its revenue from overseas. The firm's ability to raise prices on its popular Marlboro brand, analysts say, contributed to its 14 percent sales growth in 2011, compared with the year earlier.

MARKET VALUE **$150.8 bil.**
EST. 2012 EPS **$5.31**
EST. 2012 P/E **16**

MCDONALD'S (MCD, $99)
More than 80 percent of the Golden Arches are owned and operated by franchisees, a "wonderful business model" that keeps the cash rolling in to the Oakbrook, Ill., company, says Bill Vogel, CEO of Montag & Caldwell, which manages $14 billion and is a shareholder. The stock also pays a 2.8 percent dividend.

MARKET VALUE **$100.5 bil.**
EST. 2012 EPS **$5.71**
EST. 2012 P/E **17**

TW TELECOM (TWTC, $21)
This Littleton, Colo., telecom is gaining market share from bigger rivals through more-attentive customer service, says Donna Jaegers, senior analyst with financial-services firm D.A. Davidson. She predicts that the company's "momentum over the next few years" will justify the valuation of the stock, which trades at 42 times 2012's estimated earnings.

MARKET VALUE **$3.2 bil.**
EST. 2012 EPS **$0.51**
EST. 2012 P/E **42**

ESTÉE LAUDER (EL, $61)
Consumer-staples firms often have trouble cutting costs because many lack pricing power. But the New York–based cosmetic giant has done a "stellar job" of communicating the value of its skin-care line, leading to price increases and double-digit profit growth, says Michael Sansoterra, lead manager of the $315 million RidgeWorth Large Cap Growth fund.

MARKET VALUE **$23.5 bil.**
EST. 2012 EPS **$2.25**
EST. 2012 P/E **27**

AMERICAN WATER WORKS (AWK, $33)
Investors don't normally associate highly regulated businesses with strong growth, but the Voorhees, N.J., water utility is an exception, says Matt Berler, president of Osterweis Capital Management. The utility has gotten aggressive about approaching state utility commissions for rate increases, and Wall Street's earnings estimates for the company are "consistently too conservative," Berler says.

MARKET VALUE **$5.8 bil.**
EST. 2012 EPS **$1.96**
EST. 2012 P/E **17**

SOURCE: BLOOMBERG

Yesterday's News

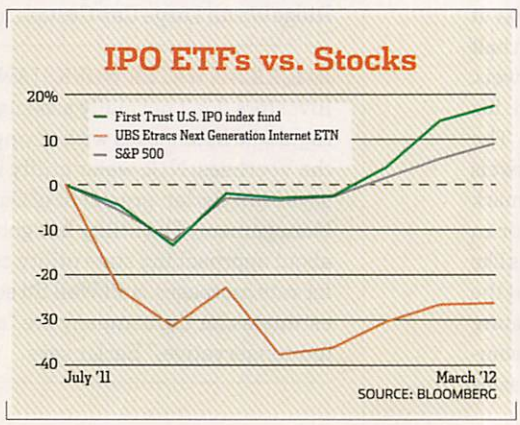
The exchange-traded fund industry's effort to jump into fresh IPOs is a little stale, analysts say.

By Ian Salisbury

WITH THEIR KNACK for combining exotic assets into a single stock-like bundle, exchange-traded funds give investors the ability to easily trade hard-to-get things: stocks of tiny countries, corn and other commodities—even abstract ideas such as "volatility." So it only seems natural that the $1 trillion ETF industry would try pushing into another corner of Wall Street: initial public offerings. But analysts say investors using exchange-traded products to capture the buzz of the IPO market are going to find a lot more—and a lot less—than they bargained for.

Indeed, these products are filled with what could be called IPOlds. For instance, the top holdings of the First Trust U.S. IPO index fund (FPX) include Visa (which had its initial offering in 2008), Philip Morris International (2008) and General Motors (reissued in 2010). LinkedIn, Zynga, Groupon and additional fresh-out-of-the-oven IPOs are nowhere to be found. The UBS Etracs Next Generation Internet ETN (EIPO) does have some high-flying technology names, but it by no means encompasses the entire IPO market, missing the likes of Michael Kors and other IPOs that have soared since their debuts. When these products do buy into IPOs, analysts say, it's well after the stocks have actually debuted. In many cases, that's well after the stock price of the IPO has soared. "You don't get in on day one," says Morningstar analyst Robert Goldsborough. These exchange products don't give investors early access to Facebook or other highly anticipated upcoming IPOs either.

The product manufacturers say their wares aren't intended to get into an IPO the second it starts trading. First Trust says its ETF was designed, in part, for financial advisers wary of indulging clients who clamor for too much of the new thing. "It helps advisers dissuade clients from buying just one or two IPOs," says First Trust research analyst Eric Anderson. Experts say if investors really want a hotly anticipated stock, they're better off asking a broker to see whether it will have access to the IPO's shares on the day it goes public at its debut price.



TERM OF THE MONTH
FINANCIAL REPRESSION

By keeping interest rates low for years, the Federal Reserve, along with other major central banks, might be making it really cheap for governments to borrow, but they've also been punishing people who are trying to save, argues economist Carmen Reinhart. She uses a term from the 1970s, "financial repression," to describe the strategy. Savings accounts and other investments whose payouts are based on interest rates are paying paltry amounts. After accounting for inflation, savers are essentially earning a negative rate of return. "Think of it as a tax," she says.

Illustration by Ross Jones for SmartMoney

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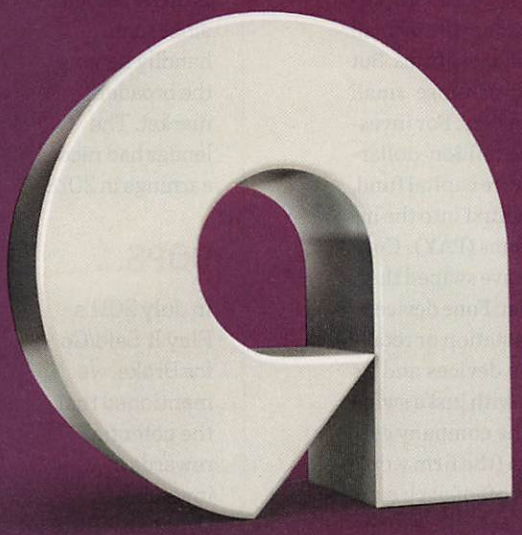

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Cashless Society

In a few years, mobile phones could make all those dollar bills stuffed in your wallet obsolete. A safe, and a riskier, way to invest in the rise of mobile payments. By Jen Wieczner

PLAY IT SAFE

Big Credit Card Firm

RISK LEVEL 20

Imagine never having to carry cash or even a credit card. That's the future if mobile payments—buying a hamburger or a new outfit with just a wave of your smartphone—catch on. Telecommunications research firm Juniper Research estimates that the total value of mobile payments could reach $670 billion by 2015, about triple the amount from last year. Privacy and security concerns could keep mobile payments from becoming a way of life in the U.S. for a while, says Matthew Schuldt, who manages Fidelity's Select Computers Portfolio fund. At the least, investors have a reasonably safe way to buy into the trend: Visa (V) and MasterCard (MA) are developing their own mobile-payment systems, says Craig Richard, an equity analyst for the Buffalo Science and Technology fund. That could take years, but until then, both have all those credit and debit card transactions to drive higher sales and profits, says Richard.

GO FOR BROKE

Small Tech Firm

RISK LEVEL 90

Venture capitalists are putting big money into small mobile-payment firms. But nearly all of those small fries are private, analysts say. For investors who don't have the million-dollar-plus entry fee for a venture capital fund, the only way to dive headfirst into the industry is VeriFone Systems (PAY). Consumers might already have swiped their credit cards through a VeriFone device to make purchases at a gas station or retailer. Now many VeriFone devices and its software let people pay with just a swipe of their smartphone. The company gets a cut of each transaction (the firm won't say how much it makes off of each sale, but analysts say it's probably close to the 2.75 percent that Square, a start-up mobile-payment firm, collects). But VeriFone faces stiff competition from Square, from the PayPal division of eBay (EBAY) and from other rivals. Analysts say there's no guarantee that VeriFone's devices will become the industry standard.

TOLD YOU SO...

We said Wells Fargo (WFC) would rebound in August 2011's "Can You Bank on Them?" The stock is up 24 percent since then, handily beating the broader market. The lender had record earnings in 2011.

OOPS...

In July 2011's Play It Safe/Go for Broke, we mentioned that the potential rewards of investing in Oshkosh (OSK), a specialty-vehicle manufacturer that heavily relied on one military contract, could outweigh the risks. But the firm lost money on a line of its vehicles, and some investors worry about proposed cuts in the defense budget. The stock is down 28 percent. A spokesperson says the firm is focusing on its three nondefense businesses.

Illustrations by Scott Roberts for SmartMoney

HOW DO YOU REACH A SPECIFIC NEIGHBORHOOD? WORK WITH A PARTNER THAT REACHES THEM ALL.

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"The U.S. energy boom is good news for the economy and investors."

21% Decrease in coal-generated electricity in the past year

JACK HOUGH, a former Wall Street adviser, is the author of *Your Next Great Stock.*

IN THE PAST YEAR, U.S. natural gas prices have fallen by half, and recently sat near a 10-year low. How cheap can gas get? Some say it may soon trade for next to nothing, and that has important—though not-so-obvious—implications for stock investors.

Oil and gas production is booming across North America. Companies that once engaged in hit-or-miss exploration can now find energy nearly every time they drill, thanks to new technologies. Oil is easily transported overseas, whereas natural gas is not, so world demand has kept crude prices high, but natural gas stockpiles have reached glut levels. Drillers usually respond to low prices by cutting production, and many are doing just that. But oil drilling tends to unlock plenty of natural gas, as does drilling for other lucrative liquids, such as propane, butane and ethane. The result: Natural gas production continues to rise, says the Department of Energy. With operators of gas pipelines and storage facilities reaching capacity, some may be forced to turn customers away by the end of the summer, causing gas prices to crash, says Jerry Swank of Swank Capital, a Dallas investment firm focused on energy.

Of course, that situation won't last forever. Firms will find new ways to transport and use natural gas, and prices will rebound. Already, U.S. electricity generation from natural gas has jumped 12 percent in the past year. At some point, investors will get a once-in-a-lifetime chance to buy shares of gas drillers like Chesapeake Energy cheaply and ride a rebound in prices, but we're not there yet, says Swank. Chesapeake declined to comment.

The U.S. energy boom is good news for the economy and investors. Analysts say it could spark a manufacturing renaissance, and some estimate that it will create 3 million or more new jobs by 2020, and add 2 to 3 percent to the gross domestic product. For now, investors should focus on firms that can readily turn cheap natural gas into profits. Chief among them are steelmakers because of their high need for energy. Nucor, the country's second-largest steelmaker, says it plans to use more natural gas in place of coking coal. Chemical makers can turn natural gas liquids into everything from fabrics to food packaging. Dow Chemical is ramping up such activities by restarting an idle plant and building a new one.

Increased energy production should keep pipeline operators like Dominion Resources busy, especially because it has assets close to shale regions. It is also working on ways to ship natural gas in liquid form to foreign markets, where prices are much higher than in the U.S. Finally, Canada's Agrium makes fertilizer and is benefiting from rising world food demand. Natural gas represents a key cost for the firm; its price gives Agrium an edge over rivals for years to come.

Gaining Steam These firms are poised to benefit from the glut and resulting low prices of natural gas in the U.S.

Company (Ticker)	Industry	Share Price ($)	Market Value ($ bil.)	Return on Equity (%)	Price/ Earnings*	Long-Term Debt/Total Capital (%)
Agrium (AGU)	Agricultural chemicals	87	13.8	26	9	24
Dominion Resources (D)	Utilities	51	29.3	12	16	54
Dow Chemical (DOW)	Diversified chemicals	33	39.9	13	12	41
Nucor (NUE)	Steel	42	13.2	11	15	30

Data as of 4/5/12. *Based on forecast earnings for 2012.

SOURCE: THOMSON REUTERS

For today's stock analysis from Jack Hough, visit smartmoney.com/stockscreen.

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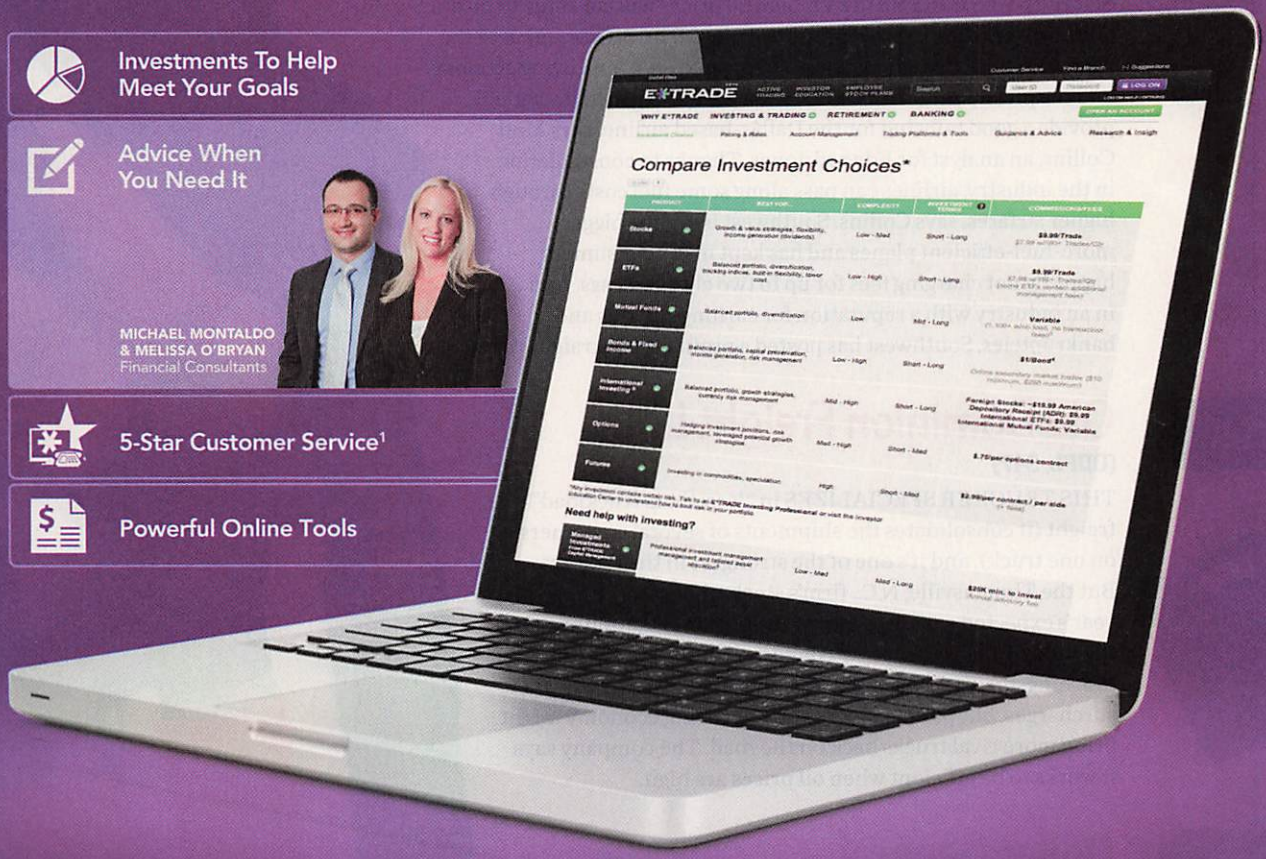

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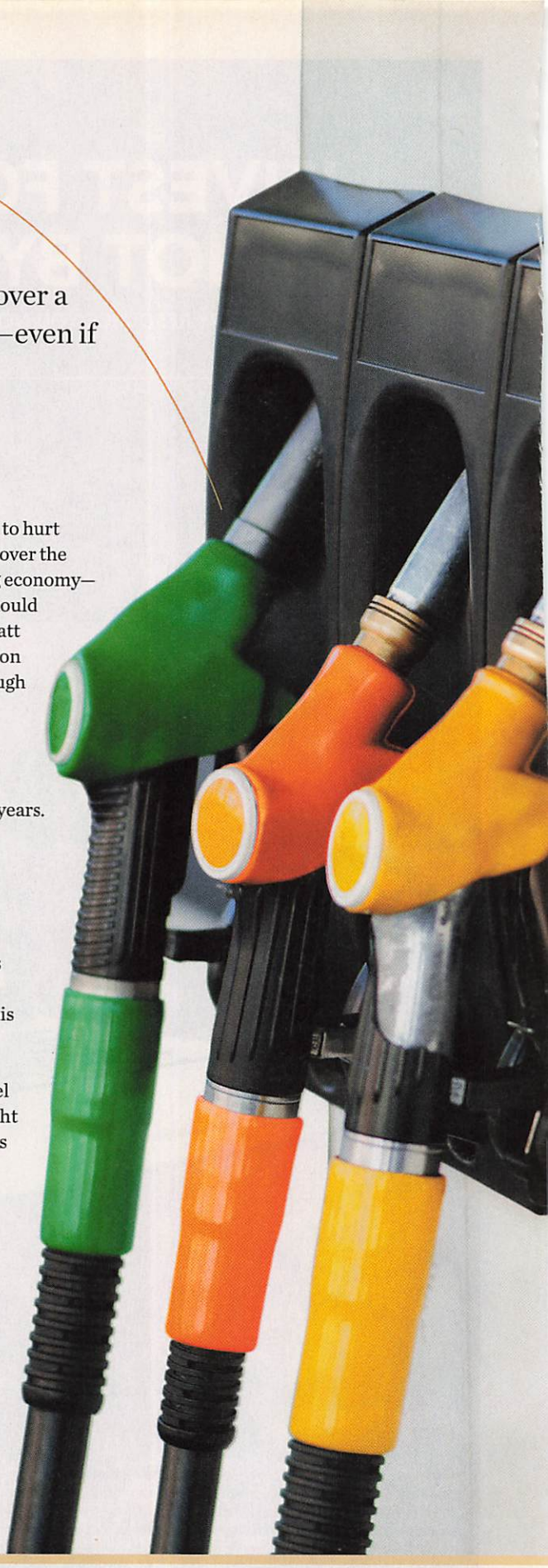
Oil Pressure

Higher oil prices are putting many companies over a barrel. But which stocks can keep on pumping—even if oil keeps rising? By Jonnelle Marte



BUY

Southwest Airlines

(LUV, $8)

SOME INVESTORS BELIEVE high oil prices will continue to hurt Southwest Airlines; its stock is down more than 30 percent over the past year, as oil prices have surged. However, the improving economy—and the pickup in air travel that often goes along with it—should provide a good tailwind for the Dallas-based airline, says Matt Collins, an analyst for Edward Jones. Thanks to consolidation in the industry, airlines can pass along some fuel costs through higher airfares, says Collins. Southwest is adding bigger, more-fuel-efficient planes and has kept many consumers happy by not charging fees for up to two checked bags. And in an industry with a reputation for earnings misses and bankruptcies, Southwest has posted a profit for 39 straight years.

SELL

Old Dominion Freight Line

(ODFL, $47)

THIS TRUCKER SPECIALIZES in "less-than-truckload" freight (it consolidates the shipments of several customers on one truck), and it's one of the strongest in the industry. But the Thomasville, N.C., firm's stock trades at 17 times this year's expected earnings, one of the higher valuations in the industry, says Matthew Young, an equity analyst for Morningstar. Old Dominion has been able to pass along fuel surcharges, but paradoxically, the improving economy might bring more rival trucks back on the road. The company says it works to be efficient when oil prices are high.

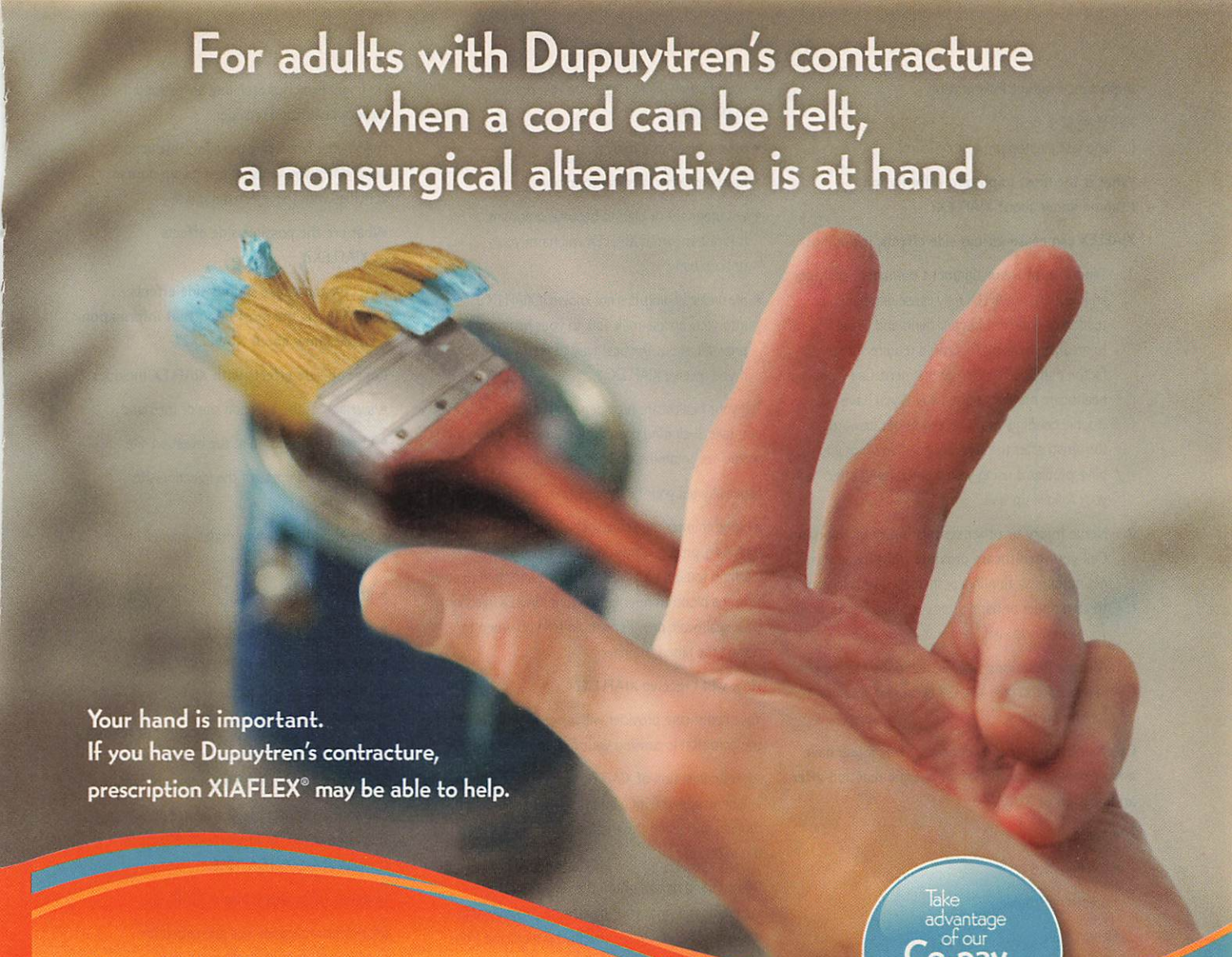
HOLD

Dollar General

(DG, $46)

SHARES OF THIS Goodlettsville, Tenn., retailer have surged 40 percent in the past year. Sales in 2011 were $14.8 billion, up 14 percent from a year earlier. Rising gas prices could persuade consumers to shop more at Dollar General, says David White, a financial planner in Bloomfield Hills, Mich. Still, investors might wonder why some shareholders sold 25 million shares this spring at $45 a share, just beneath the stock's 52-week high. At the time of the sale, Dollar General said it didn't receive any proceeds from the transactions.

For adults with Dupuytren's contracture when a cord can be felt, a nonsurgical alternative is at hand.



Your hand is important.
If you have Dupuytren's contracture, prescription XIAFLEX® may be able to help.

Take advantage of our **Co-pay Program**

For more information,
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About XIAFLEX®

XIAFLEX® (collagenase clostridium histolyticum) is a prescription medicine used to treat adults with Dupuytren's contracture when a "cord" can be felt. Over time, the thickening and shortening of this cord in the hand can cause one or more fingers to bend toward the palm, so that the finger(s) cannot be straightened. XIAFLEX helps to break down the cord that is causing the finger to be bent. XIAFLEX should be injected into the cord by a healthcare provider who is experienced in injection procedures of the hand and treating people with Dupuytren's contracture.

IMPORTANT SAFETY INFORMATION
XIAFLEX can cause serious side effects, including:

- Tendon rupture or ligament damage. Receiving an injection of XIAFLEX may cause damage to a tendon or ligament in your hand and cause it to break or weaken. This could require surgery to fix the damaged tendon or ligament. Call your healthcare provider right away if you have trouble bending your injected finger (towards the wrist) after the swelling goes down or you have problems using your treated hand after your follow-up visit.
- Nerve injury or other serious injury of the hand. **Call your healthcare provider right away** if you get numbness, tingling, or increased pain in your treated finger or hand after your injection or after your follow-up visit.
- Allergic Reactions. Allergic reactions can happen in people who have received an injection of XIAFLEX because it contains foreign proteins. **Call your healthcare provider right away if you have any of these symptoms of an allergic reaction after an injection of XIAFLEX:** hives; swollen face; breathing trouble; or chest pain.

Before receiving XIAFLEX, tell your healthcare provider if you have had an allergic reaction to a previous XIAFLEX injection, or have a bleeding problem or any other medical conditions. Tell your healthcare provider about all the medicines you take, including prescription and non-prescription medicines, vitamins, and herbal supplements. Be sure to tell them if you use blood thinners such as aspirin, clopidogrel (Plavix®), prasugrel hydrochloride (Effient®), or warfarin sodium (Coumadin®).

Common side effects with XIAFLEX include: swelling of the injection site or the hand; bleeding or bruising at the injection site; pain or tenderness of the injection site or the hand; swelling of the lymph nodes (glands) in the elbow or underarm; itching; breaks in the skin; redness or warmth of the skin; and pain in the underarm.

You are encouraged to report negative side effects of prescription drugs to the FDA. Visit www.FDA.gov/medwatch or call 1-800-FDA-1088.

Please see Important Product Information on the following page.

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XIAFLEX®
collagenase clostridium histolyticum

Within reach

Important Product Information

XIAFLEX® (Zi a flex)
(collagenase clostridium histolyticum)

What is the most important information I should know about XIAFLEX?

XIAFLEX can cause serious side effects, including:

1. **Tendon rupture or ligament damage.** Receiving an injection of XIAFLEX may cause damage to a tendon or ligament in your hand and cause it to break or weaken. This could require surgery to fix the damaged tendon or ligament. Call your healthcare provider right away if you have trouble bending your injected finger (towards the wrist) after the swelling goes down or you have problems using your treated hand after your follow-up visit.
2. **Nerve injury or other serious injury of the hand. Call your healthcare provider right away** if you get numbness, tingling, or increased pain in your treated finger or hand after your injection or after your follow-up visit.
3. **Allergic Reactions.** Allergic reactions can happen in people who take XIAFLEX because it contains foreign proteins.

Call your healthcare provider right away if you have any of these symptoms of an allergic reaction after an injection of XIAFLEX:

- hives
- swollen face
- breathing trouble
- chest pain

What is XIAFLEX?

XIAFLEX is a prescription medicine used to treat adults with Dupuytren's contracture when a "cord" can be felt.

In people with Dupuytren's contracture, there is thickening of the skin and tissue in the palm of your hand that is not normal. Over time, this thickened tissue can form a cord in your palm. This causes one or more of your fingers to bend toward the palm, so you can not straighten them.

XIAFLEX should be injected into a cord by a healthcare provider who is skilled in injection procedures of the hand and treating people with Dupuytren's contracture. The proteins in XIAFLEX help to "break" the cord of tissue that is causing the finger to be bent.

It is not known if XIAFLEX is safe and effective in children under the age of 18.

What should I tell my healthcare provider before starting treatment with XIAFLEX?

XIAFLEX may not be right for you. Before receiving XIAFLEX, tell your healthcare provider if you:

- have had an allergic reaction to a previous XIAFLEX injection.
- have a bleeding problem.
- have any other medical conditions.
- are pregnant or plan to become pregnant. It is not known if XIAFLEX will harm your unborn baby.
- are breastfeeding. It is not known if XIAFLEX passes into your breast-milk. Talk to your healthcare provider about the best way to feed your baby if you receive XIAFLEX.

Tell your healthcare provider about all the medicines you take, including prescription and non-prescription medicines, vitamins, and herbal supplements.

Especially tell your healthcare provider if you use:

a blood thinner medicine such as aspirin, clopidogrel (PLAVIX®), prasugrel hydrochloride (EFFIENT®), or warfarin sodium (COUMADIN®). If you are told to stop taking a blood thinner before your XIAFLEX injection, your healthcare provider should tell you when to restart the blood thinner.

How will I receive XIAFLEX?

Your healthcare provider will inject XIAFLEX into the cord that is causing your finger to bend.

After an injection of XIAFLEX, your affected hand will be wrapped with a bandage. You should limit moving and using the treated finger after the injection.

Do not bend or straighten the fingers of the injected hand until your healthcare provider says it is okay. This will help prevent the medicine from leaking out of the cord.

Do not try to straighten the treated finger yourself.

Keep the injected hand elevated until bedtime.

Call your healthcare provider right away if you have:

- signs of infection after your injection, such as fever, chills, increased redness, or swelling
- numbness or tingling in the treated finger
- trouble bending the injected finger after the swelling goes down

Return to your healthcare provider's office as directed on the day after your injection. During this first follow-up visit, if you still have the cord, your healthcare provider may try to extend the treated finger to "break" the cord and try to straighten your finger.

Your healthcare provider will provide you with a splint to wear on the treated finger. Wear the splint as instructed by your healthcare provider at bedtime to keep your finger straight.

Do finger exercises each day, as instructed by your healthcare provider.

Follow your healthcare provider's instructions about when you can start doing your normal activities with the injected hand.

What are the possible side effects of XIAFLEX?

XIAFLEX can cause serious side effects. See "What is the most important information I should know about XIAFLEX?".

Common side effects with XIAFLEX include:

- swelling of the injection site or the hand
- bleeding or bruising at the injection site
- pain or tenderness of the injection site or the hand
- swelling of the lymph nodes (glands) in the elbow or underarm
- itching
- breaks in the skin
- redness or warmth of the skin
- pain in the underarm

These are not all of the possible side effects with XIAFLEX. Tell your healthcare provider about any side effect that bothers you or does not go away.

Call your doctor for medical advice about side effects. You may report side effects to the FDA at 1-800-FDA-1088.

General information about XIAFLEX

Medicines are sometimes prescribed for purposes other than those listed here. This is a summary of the most important information about XIAFLEX. If you would like more information, talk to your healthcare provider. You can ask your healthcare provider for information about XIAFLEX that is written for health professionals.

For more information visit www.XIAFLEX.com or call 1-877-663-0412.

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Should you trust your invention to the crowd?

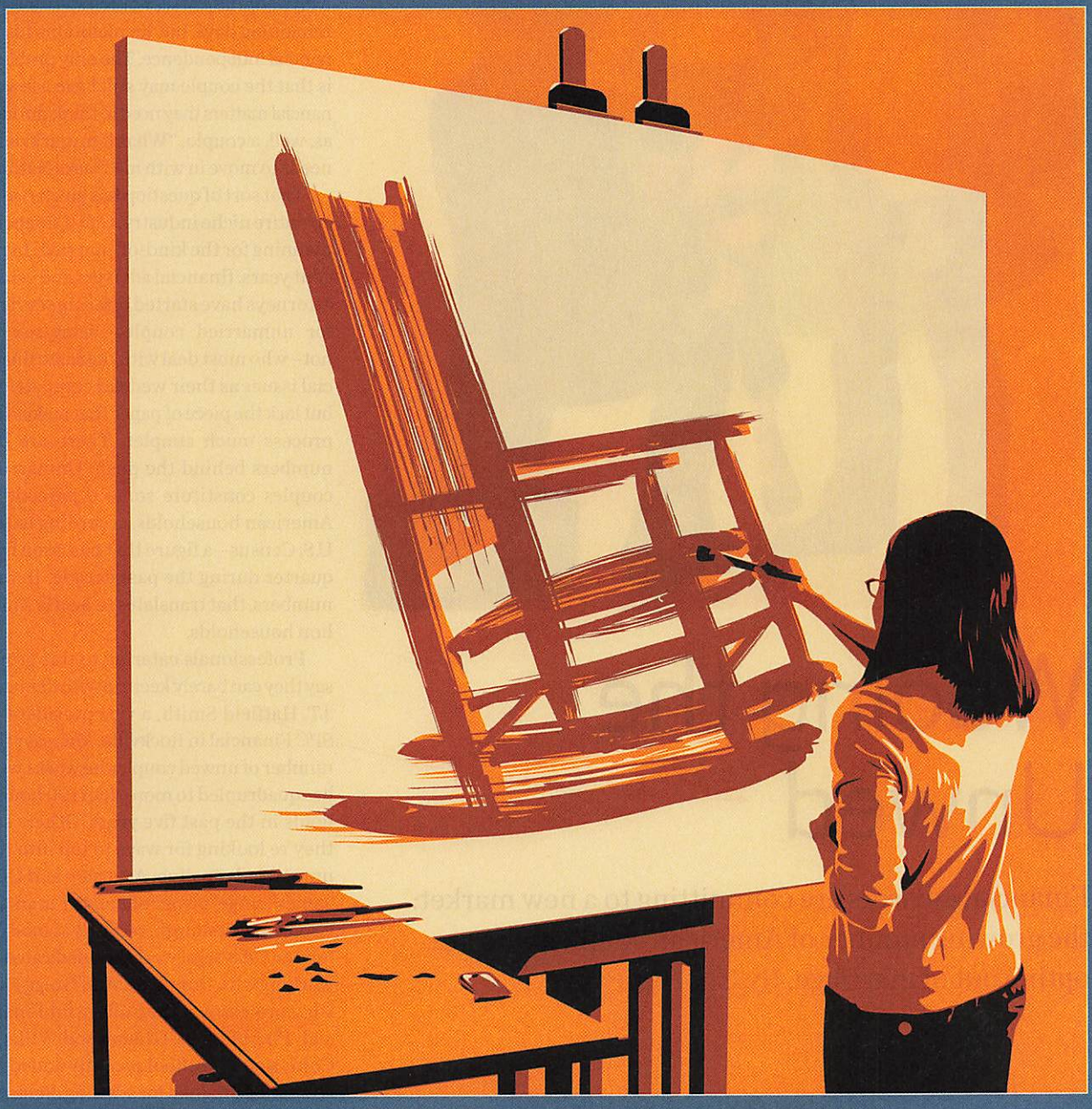
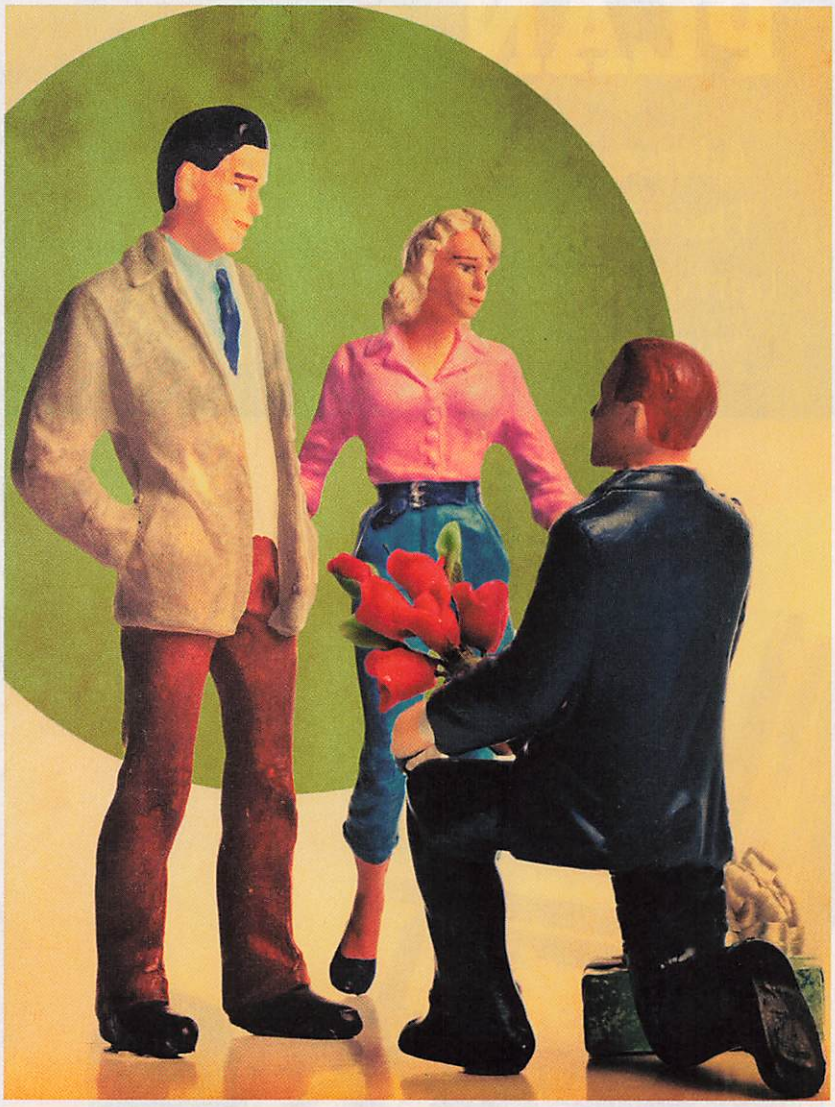


Illustration by Daniel Hertzberg for SmartMoney



6.8 mil. American households with unmarried partners

Wooing the Unwed

Financial advisers are committing to a new market: the growing number of American couples who are opting out of marriage. By Charles Passy

FOR MOST couples, marriage provides emotional and financial support—to say nothing of a guaranteed date on Saturday night. But for retired executive Eric Nathan, it's little more than a musty tradition. The divorced 64-year-old North Carolina resident says he prefers his current arrangement: He has a steady girlfriend with whom he can see himself spending his remaining days, but he maintains his financial independence. The only problem is that the couple may still have a few financial matters they need to think through as, well, a couple. "What if my girlfriend needs to move in with me?" asks Nathan.

That sort of question has given rise to an entire niche industry: Call it financial planning for the kind-of-married. In recent years, financial advisers and estate attorneys have started offering services for unmarried couples—same-sex or not—who must deal with the same financial issues as their wedded compatriots but lack the piece of paper that makes the process much simpler. There are big numbers behind the push: Unmarried couples constitute some 6 percent of American households, according to the U.S. Census—a figure that has risen by a quarter during the past decade. In raw numbers, that translates to nearly 7 million households.

Professionals catering to this group say they can barely keep up with demand. J.T. Hatfield Smith, a vice president of SPC Financial in Rockville, Md., says the number of unwed couples he works with has quadrupled to more than 100 households in the past five years. Others say they're looking for ways to tap into the unmarried pipeline. Attorney and CPA James Lange, owner of Lange Financial Group in Pittsburgh, recently signed up for a one-day legal workshop dedicated to working with this niche. And Gregg Parish, a professor at the College for Financial Planning in Greenwood Village, Colo., says his school recently added an accredited program for advising domestic

PERFECT PORTFOLIO ILLUSTRATIONS BY QUICKHONEY FOR SMARTMONEY

Photo-illustration by Stephen Webster for SmartMoney

partners. "It got to the point where financial planners were saying, 'Hey, I don't know what to tell these people,'" he says.

And there's a lot to tell: Married couples can take much for granted, like the ability to transfer assets between spouses without tax implications or the right to assume end-of-life caregiving decisions. But for unmarried couples, there's a range of paperwork—from trusts (which can cost $1,500 to $5,000 in legal fees to establish) to prenup-style domestic-partnership agreements—that's required to guarantee the proper protections and cost-saving measures. Otherwise, they could run into problems with issues like, say, whether the surviving partner will be able to remain in the couple's home after the other passes.

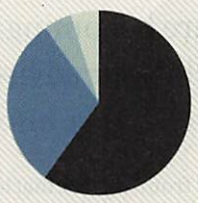
But the problem, say experts, is that the issues involved are so complex that even specialists devoted to this type of planning can make mistakes. Estate planning is one potential trouble spot. It's a crucial piece of planning for unmarried couples, because there's no assuming the "spouse" will get what he or she deserves or expects, and yet there are few cookie-cutter solutions for drawing up legal documents for unwed partners, says Lange. And even small planning matters can cause problems, says Hatfield Smith. Take homeowner's insurance: If the property is under only one partner's name, the policy won't necessarily cover the other's personal items.

If there's any takeaway for the kind-of-married, say the pros, it's that even a little planning can go a long way, be it in the form of thousands of dollars saved in taxes or the comfort of knowing you can make medical decisions on a partner's behalf. Of course, for some couples, a marriage blessed by the federal government remains an option—and there are couples who tie the knot for financial reasons, say advisers and attorneys. But Nathan, the retired executive, doubts he and his girlfriend will ever be one of them: "We're both very protective of our freedom."

Perfect Portfolio

34-year-old newlyweds

Investors who don't yet need a steady income from their portfolios should focus on stocks, says Dean Zayed, CEO of Prizm Financial Advisors in Wheaton, Ill. Experts say bond prices look steep, with 10-year Treasury bonds yielding little more than 2 percent—not even enough to keep up with inflation over the next decade. Zayed favors emerging-market stocks; but steer clear of Europe, he says, until the debt crisis there settles down.



- 60% U.S. stocks
- 30% Foreign stocks
- 5% Bonds
- 5% Cash

55-year-old single parent, kids in college

A sufficient emergency fund is always a good thing—but even more so for those with relatively few working years left. If forced to withdraw from your 401(k) or IRA now, because of a job loss or other emergency, you would have limited time to make up for any shortfall. Zayed says to focus on high-quality, dividend-paying companies to hedge against market downturns. Experts also suggest alternative assets such as real estate or commodities.

- 50% Stocks
- 15% Alternatives
- 25% Bonds
- 10% Cash

57-year-old empty nesters

Those retiring in the next decade should gradually shift their portfolios to include more fixed-income assets. Jeff Bucher, president of Citizen Advisory Group, in Perrysburg, Ohio, says that with interest rates so low, investors might want to consider some bond alternatives, like certificates of deposit or certain annuities. "You're still a long-term investor," Bucher points out.

- 55% Stocks
- 15% Alternatives
- 28% Bonds
- 2% Cash

Note that these allocations may shift as market conditions change. To see updates on our portfolios, including recommended asset mixes for other stages of life, go to smartmoney.com/perfectportfolio.

Borrower Beware

10%-plus Interest rate often charged on stock-based loans

Some financial pros are becoming lenders to their own clients. But should your adviser really double as your banker? By J. Alex Tarquinio

BEFORE BORROWING from a friend," the proverb goes, "decide which you need most." How 16th century! In today's financial world, one would do well to substitute *financial adviser* for *friend.* Surprisingly enough, many investors in need of extra cash these days are taking loans out against their stocks, and the lenders are often the same people—their accountants, attorneys or insurance agents—whom borrowers trust to give them financial counsel. The practice, known as stock-based lending, has been going on under the radar for years, experts say. But with other forms of credit still scarce, many investors are tempted—despite some not-so-obvious risks.

For starters, says Lee Munson, a financial planner in Albuquerque, N.M., such loans can often be more expensive and less transparent than the margin loans offered by brokers. When investors take out a margin loan, for example, they get a statement that shows their total market exposure. But for those who borrow against a stock portfolio, says Munson, the impact can be less clear. Take an investor who borrows $1 million against a $2 million stock holding, and then loses $1 million in the markets. He hasn't lost half of his portfolio, says Munson, he's effectively lost it all, because he still needs to repay the loan. What's more, says Seth Lipner, a law professor at Baruch College in New York, borrowers often don't realize that lenders can sell the shares underlying a loan if those shares fall below a certain threshold—with the result often being an unexpected tax bill to boot.

To be sure, financial planners who arrange these loans say they can be a lifeline for borrowers at a time when bank loans are difficult to get. Scott J. Kaminsky, a financial adviser for Morgan Stanley Smith Barney in Philadelphia, says such a loan came in handy for one client who was buying a new home but had yet to sell the old one. Still, experts say, even in cases where there's a good reason to borrow, investors should be cautious. Generally, when financial advisers arrange stock-based loans, the advisers don't back the loan, but act as middlemen for third-party lenders, says Gerri Walsh, vice president for investor education at the Financial Industry Regulatory Authority. And some of those lenders, she cautions, are not regulated by either the banking or securities industries. Even when the lender is legit, experts say, such loans can put borrowers in an awkward situation with their financial advisers—particularly when the borrowed cash is used to purchase a product, like a mutual fund or annuity, which the adviser has a financial incentive to sell. As Munson puts it: "These things are riddled with conflicts of interest."

Illustration by Matt Collins for SmartMoney

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*Based on cumulative total return, 12 of 12 (100%), 11 of 12 (92%), 12 of 12, and 12 of 12 of the Retirement Funds for individual investors outperformed their Lipper average for the 1-, 3-, and 5-year and since-inception periods ended 3/31/12, respectively. The Retirement 2010, 2020, 2030, 2040, and Income Funds began operations on 9/30/02; the 2005, 2015, 2025, and 2035 Funds began operations on 2/29/04; the 2045 Fund began operations on 5/31/05; and the 2050 and 2055 Funds began operations on 12/31/06. (Source for data: Lipper Inc.)

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"Chances are good the funds in your 401(k) yield only about 2 percent."

$179,600
Average 401(k) for workers in their 50s with 20 to 30 years of tenure

GLENN RUFFENACH is editor of *The Wall Street Journal's* Next section, a guide to retirement planning and living.

THIS MAY surprise you, but there's a good chance you can take direct control of your nest egg at work, choosing investments beyond the two dozen or so mutual funds that most employers offer in their savings plans. Doing so can be risky, but here's why you should consider taking a shot at it.

About one in five employers, according to Plan Sponsor Council of America (PSCA), offers a self-directed brokerage option, in which workers with 401(k)s and related accounts can buy stocks, bonds and other assets. Also, three-quarters of employers—and 86 percent of those with 5,000 or more plan participants—permit "in-service withdrawals" (typically starting at age 59½), where holdings can be pulled from accounts and rolled into IRAs.

Yes, this is a scary idea: people taking the wheel of their savings plans and, possibly, crashing into crazy investments. Most workers with these options, in fact, take a pass; less than 1 percent of plan assets are invested through self-directed accounts. Indeed, according to David Wray, president of PSCA, "401(k) participants are not retail investors—picking individual stocks is way out of their thinking."

But I'm betting that, if you pursue either option, you're smart enough to do so gingerly. In which case, the potential payoff is that you get a jump on building income for retirement.

More people are recognizing the importance of having investments that generate cash in later life. This way, you aren't dependent on capital gains to meet expenses. What's less appreciated, though, is the

value in identifying and assembling these investments early—say, five or 10 years before retirement. If you can get a head start on building income at age 55 or 60, says Charles Farrell, chief executive at Northstar Investment Advisors in Denver, the compounding effects can move you closer to the point where you're living off the returns of your portfolio in retirement, rather than eating into the portfolio itself.

Dividend-paying stocks—and an important concept called "yield on cost"—are a good example of how this can work. Yield on cost is calculated by dividing a stock's current dividend by the amount originally paid for each share. Let's say you buy a stock for $12, and it pays a 3 percent annual dividend, or 36 cents. And let's say that after a year, the share price hits $16, and the company increases the dividend to 48 cents.

At this point, the payout is still 3 percent (48 cents is 3 percent of $16). But not for you. You paid $12 for your stock; thus, you're getting a dividend of 48 cents on $12—or 4 percent. So, your yield on cost is 4 percent. In other words, you're now earning a higher yield on your original investment, which puts more money in your pocket. If you're able to invest in companies with a long history of paying dividends—where those dividends increase annually and the increases outpace inflation—your yield on cost eventually should outshine the return on other investments.

Now, let's return to your 401(k), which likely holds the bulk of your retirement savings. Chances are good that the mutual funds in your account are yielding about 2 percent (or less)—hardly the stuff of retirement dreams. (Inflation alone is running about 2.9 percent.) But if you could gain access to a wide range of investments, you could assemble—today—a group of dividend-paying stocks (again, with a steady history of payouts and dividend increases) that yields about 3.5 percent. Ideally, over time your yield on cost on

ILLUSTRATION BY MICHAEL AUSTIN; COLUMNIST ILLUSTRATION BY ALEXANDRA COMPAIN-TISSIER/ART DEPARTMENT

For more ideas on preparing for a healthy retirement, go to SmartMoney.com.

these shares would rise significantly.

To see how this might work, I asked Charles Carnevale, founder of FAST Graphs, a website with a nifty set of stock-research tools, to calculate how yield on cost for several investments could change over time, based on analysts' current growth estimates. I picked Coca-Cola, Johnson & Johnson and Procter & Gamble, each of which meets our criteria: an attractive current yield and a history of increasing payouts.

At the moment, the three stocks yield roughly 3.0 percent, 3.6 percent and 3.2 percent, respectively. In five years, the yield on cost for these stocks—again, based on the companies' projected growth—is expected to reach 4.6 percent, 4.7 percent and 4.8 percent. In five more years (should the current growth rate hold), the yield on cost for each would exceed 6 percent.

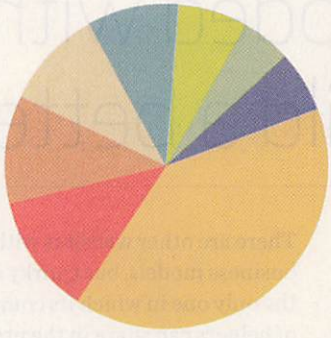
How could this help you? Remember: A 4 percent rate of withdrawal from a nest egg is traditionally considered a safe starting point. If you're thinking about drawing down your savings at that rate, "the growing yield on cost alone may meet your distribution needs in retirement," says Farrell.

If all this sounds too easy, you're right to be cautious. Dividends, of course, can be reduced or eliminated. (In 2008, Bank of America's quarterly payout was 64 cents; today it's a penny.) Companies don't always meet growth estimates. And some people simply aren't meant to manage their money: They buy and sell too frequently; they pick less-than-stellar investments (read: Enron); and they get hammered with trading fees.

That said, the need for dependable and growing income in later life is clear—and if you can start the process early, so much the better. My advice: See what options you have with your 401(k). If you're able to take the reins, sit down with a financial adviser and discuss investments that fit your comfort level and future needs. The ride could be safer than you think.

RETIREMENT PIE

The average asset allocation of 401(k) accounts among workers in their 50s:



40%	Equity funds
12%	Bond funds
11%	Guaranteed investment contracts/stable-value funds
10%	Target-date funds
9%	Company stock
7%	Nontarget-date balanced funds
5%	Money funds
6%	Other

SOURCES: EMPLOYMENT BENEFIT RESEARCH INSTITUTE; INVESTMENT COMPANY INSTITUTE

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"An 'industry of failure,' flooded with folks trying to build a better spatula."

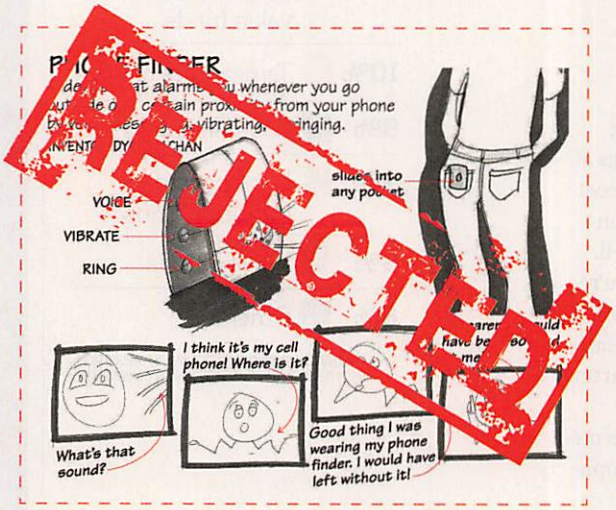
DYAN MACHAN, a senior writer at SmartMoney, can be reached at dmachan@smartmoney.com.

EVERYONE WANTS to be an inventor. So when I had the opportunity to test-drive an idea at Quirky, a company that helps people commercialize their product ideas, I jumped at the chance.

During a presentation at Quirky's industrial-chic Manhattan headquarters, 25-year-old founder Ben Kaufman wowed us with tales of how he took his first trip to China to sell the headphones he invented—while still in high school. I found myself fantasizing that my own idea—conjured up the night before—could yield a globe-trotting business trip. I was soon to learn, however, that the odds of seeing my product on a store shelf were less than 1 percent, according to the United Inventors Association. And those odds are getting worse every day, thanks to a flood of would-be inventors and "want-repreneurs" egged on by reality TV shows and economic malaise, says Mark Reyland, the association's director.

67% Increase in patent applications since 2000

Kaufman launched Quirky after he sold his iPod accessory company. Quirky relies on crowd-sourcing, or input from an online community of experts, to improve the design process. There are other websites with similar business models, but Quirky claims it's the only one in which its community of helpers can share in the profits. And you can actually find some Quirky projects selling at the mall. Pivot Power, a flexible power strip, is sold at Bed, Bath & Beyond. Target sells Tether Stemware Savers, which protect wineglasses in dishwashers.


VOICE
VIBRATE
RING
slides into any pocket
I think it's my cell phone! Where is it?
What's that sound?
Good thing I was wearing my phone finder. I would have left without it!
REJECTED

My brilliant idea was the Phone Finder, a clip-on device that would prevent kids from losing their cell phones by buzzing or vibrating when they got too far from their phones. Since my two sons have lost a dozen phones between them, I thought this could be a hit with parents.

Other than a $10 submission fee (presumably to screen out time machines), Quirky's system is free to inventors. Once uploaded, my Phone Finder would be reviewed for 30 days by Quirky's users—there are over 200,000 registered, and about 24,000 qualify as "active." The community could give its approval and weigh in on how my device could be improved; the company picks two products a week to develop. Quirky owns the rights to any submitted product and pays for manufacturing and distribution costs. Inventors can collect as much as 10 percent of the eventual sale price—a fair deal, compared with what the inventors association says is the typical cut of 6 to 8 percent.

Excited as I was, I got a first hint of dismay when I toured the site to see the competition. My breakthrough was up against a knife holder, a fridge magnet notepad and a wet suit with zip-off arms and legs—most of it looked like stuff you'd find in the *SkyMall* catalog. Quirky says its product line has a preponderance of household gadgets because it asks its inventors to solve everyday problems.

I waited to see what the community thought. And if my 30 days hadn't expired, I might still be waiting. The only two responses I received were from other Quirky "inventors," one of whom had a product that sounded eerily like my own. Neither wrote with helpful suggestions but encouraged

For more insights about start-ups, visit smartmoney.com/small-business.

COLUMNIST ILLUSTRATION BY ALEXANDRA COMPAIN-TISSIER/ART DEPARTMENT

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me to check out their own inventions.

Crestfallen, I consulted a friend who's well-versed in technology. He helped me do some market research. I had originally tested my idea with a quick Internet search, and it turned out I had used the wrong terms. Honestly, the phrase "Bluetooth proximity alarm" never occurred to me. Now I found a whole page of results for my "unique" product, offered by assorted Chinese manufacturers. Worse, my product looked to be on sale for under $3. One is clearly aimed at children; the design featured a picture of a dopey little dog waving its paw. Waving goodbye to my profits, I decided.

Sulkily, I checked in with Quirky's Kaufman to analyze my failure. Promoting an idea on social networks is important, he informed me. "Did you tweet your idea?" he asked. Yes, but I, ahem, don't have many followers. My submissions page on Quirky was also not so well designed. And then there's the originality problem. "Frankly," added Kaufman, "I have seen a lot of things like this." Ouch.

The conventional inventor community takes a dim view of crowd-sourcing. United Inventors' Reyland says a patent challenge could theoretically come from crowd members who contributed to a licensed product. "It's a time bomb" to manufacturers, he adds. Quirky says its experience with large retailers belies the idea that big companies don't like crowd-sourced ideas; it also says the patent risks are fully disclosed in a five-page release form that inventors sign. As for the eventual payoff, Quirky says it will send out checks totaling $1 million this year to its community members; the average amount paid to an active member, however, is just under $50.

As for my own invention's results, I felt marginally better after Reyland reminded me that inventing is itself "an industry of failure." The market is flooded with folks working on a better spatula in their backyard, he adds. "The common denominator is hope." S

JUST ADD CREATIVITY

Some companies encourage inventors to pay up front for help with development. Just don't count on making it to the shelves of Wal-Mart.

▶ **Davison** For about $10,000, Davison will research an invention, create product samples and try to tempt corporations to license the creator's brainstorm. Its biggest hit, Twister Bolts, which keeps toilet bolts secure, is sold at Home Depot and Lowe's.

▶ **InventHelp** This firm also helps usher products to market, for fees ranging from $900 to $10,000. Big seller: the SideSleeper Pro Pillow. Royalties for inventors range from 1 to 5 percent of wholesale revenue. The success rate? The company says 26 out of about 4,600 clients have made more money than they paid to InventHelp.

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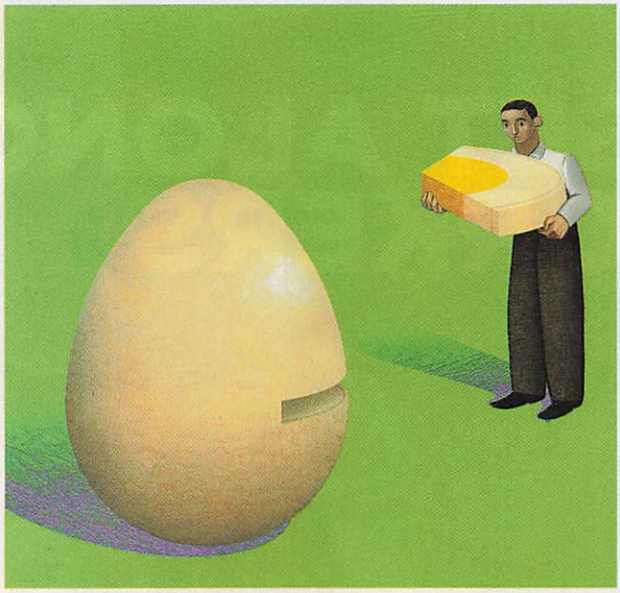

Q I'm retired and earning $6,000 annually by working part-time. If I convert a traditional IRA to a Roth, can I open a separate Roth in the same calendar year? The rollover amount, by the way, is less than what I'm earning at my job.
—Bill Cowan, Peoria, Ariz.

Good news—the IRS says you're free to open as many Roth IRAs as you want, but there can be limits on how much you can contribute or convert. If you're over 70, IRA expert Ed Slott, in New York, warns that when converting a traditional IRA to a Roth, you may have to take a required minimum distribution before converting the rest. There's no limit, though, to what you can convert—just on what you can contribute on top of that conversion, he says. In your case, that extra contribution limit would be $6,000, or what you're earning at that part-time job.

Got a question? Submit it at smartmoney.com/ask and reporter **Anna Prior** will try to answer it. A full archive of past questions and answers can be found there as well.

I want to invest in bonds. What's the best way to go about it? How do yield fluctuations affect prices? What about interest rates?
—Mark Kramer, Santa Fe, N.M.

You're not the only bond fan these days. The bond market has had quite a run, but experts like Morningstar bond fund analyst Miriam Sjoblom caution against trying to play the bond market for a quick score, since prices are already quite high and yields are low (they are inversely related). Instead, she says, use bonds as part of an asset-allocation strategy in a long-term portfolio, and look to short- and intermediate-duration bond funds to lessen the interest rate risk (duration measures a bond's sensitivity to interest rates—the longer the duration, the more sensitive the bond). But again, don't assume the bond market will play out as it has in the recent past. "That's a great way to lose money over the long haul," Sjoblom says.

I was recently laid off, and I have a loan from my 401(k). Do I have to pay penalties on this since I lost my job through no fault of my own?
—Michael Farmer, Martinsville, Va.

Alas, even though you lost your job through a layoff, experts say you're still on the hook for that loan repayment if you want to avoid defaulting and having to pay ordinary income tax on the remaining loan amount—in addition to incurring early-withdrawal penalties. The good news, says Katie Umile, CEO of registered investment adviser iCapital in Boston, is that your employer or 401(k) provider might work with you, by accepting loan payments directly in lieu of the payroll deduction taken when you were still an employee. Also, you may have a window of 60 to 90 days after your layoff to pay back the loan and interest in full, says Umile, so be sure to check the documentation that came with your loan.

ILLUSTRATION BY JON KRAUSE

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TEXT, TWEET, TRADE

BY J. ALEX TARQUINIO

The brokerage industry hopes new technology will get investors excited about trading stocks again. But underneath the bells and whistles, which brokers are really best for investors?

MOST PEOPLE SELDOM hear from their broker; they may get an occasional e-mail here, a letter there, and perhaps the rare phone call. But these days, brokers are doing a new kind of outreach: text messaging, often with a little nudge to trade. And that's just the tip of the tech iceberg. Some entice clients to download a mobile app that lets the client photograph a product's bar code to find the maker's ticker symbol. Then there are the less-subtle hints from services like Zecco's Zap Trade. When a customer browses certain websites and scrolls over the name of a publicly traded firm, Zap Trade slaps a big Z next to the name, and the customer can trade the stock right then and there. "We reach out and grab them by the lapel," says Michael Raneri, chief executive officer of Zecco Holdings.

Grabbing, shaking and nudging (not to mention poking and tweeting) investors, brokers are going to the mat to entice their clients to act less like nervous Main Street investors and more like confident pros. In the past year alone, firms have unleashed a slew of mobile trading applications, social media tools, investing videos and seminars—many designed to be as unintimidating as a quick round of Angry Birds. (Snapstock, that bar code–photo app, was devised by TD Ameritrade to encourage female customers to turn shopping sprees into investment ideas, the brokerage says.) The ubiquity of sophisticated smartphones and tablets has fueled the tech proliferation, of course. But Isabella Fonseca, research director for wealth management at Celent, a consulting firm focusing on technology and finance, says all that gear is aimed at one goal: "Getting customers to trade more."

Indeed, if brokerage firms are grabbing customers more often, experts say, that's because it's one of the few ways to shake any money out of them. After years of duking it out on pricing, discount brokers can't lower commissions much further and still earn a profit. (The average price for a basic stock trade among discounters we surveyed this year is $7.96, down from $8.27 last year.) Meanwhile, sluggish stock activity is squeezing an industry that relies heavily on trading volume for revenue. In the new tech boom, at least some brokers see a chance to turn that around, says David Lo, director of investment services at J.D. Power and Associates.

Not content with cajoling their own customers, firms are also wooing high-volume traders away from other brokerages. Several have launched sites aimed at "active traders," generally defined as customers who place 10 or more trades a month. And many have started emphasizing more-exotic

Illustration by Ryan Etter for SmartMoney

SMARTMONEY 2012 ANNUAL BROKER SURVEY

THE BEST & WORST

- COMMISSIONS AND FEES
- CUSTOMER SERVICE
- RESEARCH
- TRADING TOOLS
- MUTUAL FUNDS AND INVESTMENTS
- BANKING

investments—including options, futures and currency trading—that yield higher commissions. Charles Schwab, for example, courted both the active and the exotic last year by buying tech-proficient specialty broker OptionsXpress.

In all these arenas, technology is key to the courtship. A year ago, many of the firms didn't yet have apps for smartphones or tablet devices like the iPad. Now, almost all do. All this easy account access isn't necessarily a good thing; critics point out that trading more can mean running up extra costs—and extra risk, as investors try to time the market. But the strategy is clearly achieving its goal of priming customers' trigger fingers. During a pilot program for Zecco's new iPhone trading app in January, the already active customers who were selected to get a first crack increased their trading activity by 10 percent.

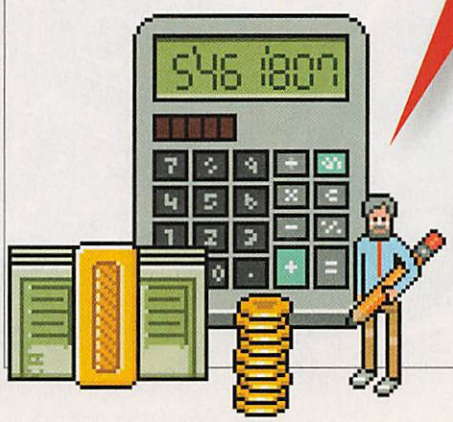
Of course, many self-directed investors want more from their brokers than just the ability to trade whenever and wherever they like. That's where our annual survey of brokers comes in. Along with tech, we look at service, which is still a high priority—customers not only want quick access to advice and help over the phone but also lightning-fast responses to e-mails and instant messages. (Surprisingly, many big brokers still do poorly on this front, as we discovered with our own battery of customer-service tests.) But even the cheaper brokers are learning that if they bump up the convenience factor, customers will come—and, in some cases, even trust the firms with their banking business. Time-pressed consumers increasingly expect their brokers to be able to respond instantly, says Lo. "God forbid something goes wrong with a trade." For our annual broker survey, SMARTMONEY took a close look at which firms did and did not live up to such expectations.

$4.95
Price of a stock trade on ***Zecco*** and ***TradeKing***—but both charge steep fees for other services.

2012 BROKER RANKINGS

RANK*	BROKER	COMMENT
1	Fidelity Fidelity.com	Top spot for third year running. Offers the biggest selection of funds and the most comprehensive website.
2	Scottrade Scottrade.com	Doesn't have the cheapest stock trades but compensates for that with few fees on nearly everything else.
3	TD Ameritrade TDAmeritrade.com	Want to trade? Its website and mobile apps are top-notch, but slow e-mail and phone response times hurt.
4	E-Trade ETrade.com	Its 24-7 online chat feature is a nice touch, but its fees are above those at rival firms.
5	Charles Schwab Schwab.com	Offers a wide assortment of investment and banking options. Its fees on some services aren't cheap.
6	TradeKing TradeKing.com	Has strong customer service, but customers can't get stocks listed on foreign exchanges.
7	Zecco Zecco.com	Doesn't have risk-assessment or automated asset-allocation tools. Lacks many banking services.
8	Merrill Edge MerrillEdge.com	It can be your bank and your broker, but high fees and slow-to-execute trades keep it from ranking higher.
9	ShareBuilder ShareBuilder.com	Offers low fees, but its customers can't buy individual corporate or government bonds.
10	WellsTrade WellsFargo.com	Online trades were slow to execute. Got low marks for its website, trading tools and research offerings.

*Criteria are not equally weighted. **Commission on a 100-share trade at $20 a share. †For clients with a brokerage balance of $50,000 who make as many as five trades a month. ††Includes data from Gomez. ‡Includes data from Corporate Insight.



COMMISSIONS AND FEES

BEST: ***SCOTTRADE***
WORST: ***WELLSTRADE***

When SMARTMONEY did its first discount-broker survey in 1994, the average commission for a stock trade at a discount broker was $28. Today, it's less than $8. Brokers are still competing for customers by cutting prices—this year's average is about 4 percent lower than last year's. But it hasn't been great for their bottom lines: The nation's brokers earned $14.3 billion from stock-trading commissions in 2010 (the most recent year available), down 8 percent from the previous year and more

Illustrations by QuickHoney for SmartMoney

All the apps, tweets and texts are great, but customers are still looking for brokers they can count on. In our survey, we evaluate a variety of categories, and put an extra emphasis on customer service. Here's how the largest discount brokers stack up (see SmartMoney.com for details on our methodology).

COMMISSION ON STOCK PER TRADE**	COMMISSIONS AND FEES†	MUTUAL FUNDS AND INVESTMENT PRODUCTS	BANKING SERVICES	TRADING TOOLS††	RESEARCH‡	CUSTOMER SERVICE
$7.95	★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★
7.00	★★★★★	★★★★	★★★★★	★★★	★★★★	★★★★
9.99	★★	★★★★	★★★★★	★★★★★	★★★★★	★★★
9.99	★★	★★★★	★★★★	★★★★★	★★★★★	★★★★
8.95	★★★	★★★★	★★★★★	★★★★	★★★★★	★★★
4.95	★★★	★★★	★	★★★	★★	★★★★★
4.95	★★★	★★★	★	★★★	★★★	★★★★
6.95	★★	★★★★	★★★★★	★★★	★★★	★
9.95	★★★★★	★	★★★	★★★	★★	★
8.95	★	★★★	★★★★	★	★	★

SOURCE: SMARTMONEY RESEARCH

than 30 percent from their peak in 2002. And market research firm Ibis World estimates that commissions, as a percentage of brokers' revenue, will keep sinking for the next five years.

The result, industry consultants say, is that the deals brokers giveth with one hand, they often taketh away with the other. Fees for other services and administrative work unrelated to trading have become a more important source of revenue—and consumers, not surprisingly, are befuddled: In a J.D. Power survey in 2011, only 36 percent of customers said they completely understood their brokerage's commission structure, down from 52 percent the year before. Count Jeff Fleishhacker among the confused. Fleishhacker, an IT manager at a nonprofit in Brooklyn, N.Y., signed up for a Merrill Edge account last fall; because of the amount he had in his Bank of America account, he thought he was eligible for a fee-free trading deal. (Merrill Edge was created after Bank of America acquired Merrill Lynch, in 2009.) But just as he was about to trade, Merrill Edge's website said he was going to get

FULL-SERVICE BROKERS

You might think the most affluent investors would get the best tech tools. But surprisingly enough, experts say, most full-service brokers are behind the technological curve; their websites lack features that are standard among even run-of-the-mill discounters. Getting wired is a tricky balancing act for the full-service crowd. "We don't ever want technology to take the place of the relationship," says Jim Weddle, managing partner at Edward Jones. Indeed, full-service brokers want to avoid the impression that they are abandoning the hand-holding that sets them apart (and helps justify their prices). Still, some brokers are catching up—not least because better technology can improve customer retention, says Bill Doyle, an industry analyst at Forrester Research.

charged a commission. He called customer service in confusion. Only then, he says, did he learn the money in his bank account didn't count toward the minimum needed to get free trading. "It seemed like a joke," he says. Merrill Edge says that it is revising its eligibility rules to make it easier for some customers to get the freebie trades.

Ask a broker for anything other than basic stock transactions, industry observers say, and the fees can quickly mount up. If you want to buy a mutual fund over the phone with E-Trade, you'll pay as much as $65 per transaction. The firm sets the fee high deliberately, as a deterrent, says E-Trade Securities President Michael Curcio: "It's so easy to go online—there's no reason to go to the phone." And Wells-Trade, the online discount-brokerage

1 Edward Jones

EDWARDJONES.COM
NUMBER OF BROKERS: ***12,300***
NUMBER OF BRANCHES: ***11,450***
NOTEWORTHY: ***Best stock picks in 2011***

■ Edward Jones bounds back into the top spot in our survey, in no small part because of its stock picking in 2011. Not only did the firm's recommendations outperform Standard & Poor's 500-stock index, but its customers also gave the firm high marks for its stock research. That helped the brokerage recover from its poor showing as a stock picker last year. The St. Louis–based firm says that in 2011 the market favored the large, high-quality stocks (think Colgate-Palmolive and IBM) that it generally recommends. On the tech front, Edward Jones has been diving into social media—posting videos about investing strategy to its YouTube channel and tweeting daily on Twitter. It also gets high marks for customer satisfaction and trust in independent surveys.

2 UBS

UBS.COM
NUMBER OF BROKERS: ***11,200***
NUMBER OF BRANCHES: ***300***
NOTEWORTHY: ***Strong website and customer satisfaction***

■ UBS is among a handful of full-service brokerages that get it when it comes to the Web, a factor that helped it leapfrog from fourth place last year. Research firm Corporate Insight found the UBS site particularly comprehensive and easy to navigate. Its many features include clear and detailed stock charts that let users add and save their own research notes; sophisticated active-trader types, meanwhile, can feast on arcane technical indicators like Bollinger Bands and stochastics. (Investors to whom those terms mean nothing needn't feel left out: UBS also gets high marks for the simplicity of its statements.) The U.S. arm of this Swiss financial giant has created a "traveling office" mobile application for its advisers.

3 Raymond James

RAYMONDJAMES.COM
NUMBER OF BROKERS: ***5,100***
NUMBER OF BRANCHES: ***2,350***
NOTEWORTHY: ***High customer satisfaction***

■ Last year, Raymond James redesigned its customer website and added an online-bill-pay system, both enhancements we like to see. But glitches remain: The site still fares poorly for user-friendliness, according to Corporate Insight. Chet Helck, the chief executive officer of the global private client group, says the firm has hired a new technology team and the website is continuing to evolve, with more changes "on tap this year." Clients, overall, remain happy, however: In a survey by J.D. Power & Associates, they gave their relationships with their individual Raymond James advisers particularly high marks. Compared with its competitors, the firm also does a good job of clearly communicating its commissions and fees.

arm of Wells Fargo, charges $95 to close a retirement account—a fee the company says is on par with its full-service brokerage. Scottrade trumps the other brokers in this category by leaving many of these fees out of its equation and keeping things simple. The brokerage charges $7 for a basic stock trade, and its commission structure is bracingly clear and easy to understand. TradeKing and Zecco each charge less for a stock transaction: $4.95 a trade. But both also charge administrative fees that Scottrade avoids, such as TradeKing's $50 account inactivity fee and Zecco's $30 annual maintenance fee for retirement accounts. (TradeKing says the fees help subsidize its customer service; Zecco says it needs to charge such fees to keep its trading commissions low.)

CUSTOMER SERVICE

BEST: ***TRADEKING***
WORST: ***WELLSTRADE***

The market has been doing better of late, and by at least one measure, the love-hate relationship between customers and their brokerage firms has also improved. The number of arbitration cases filed against brokers so far this year is down 12 percent from 2011, according to the Financial Industry Regulatory Authority, the industry's self-financed regulatory body. Part of this détente, experts say, is attributable to a sense of relative calm—during the financial crisis, customers and brokerages alike were in panic mode, and the number of investor complaints was almost twice as high as today's.

1 HOUR, 9 MINUTES
Time it took ***TradeKing*** to respond to our customer-service e-mail

45 HOURS
Time it took ***TD Ameritrade*** to respond

4 Merrill Lynch

ML.COM
NUMBER OF BROKERS: ***17,300***
NUMBER OF BRANCHES: ***722***
NOTEWORTHY: ***Big website improvements***

■ Merrill has invested in an upgraded website for its full-service customers and launched mobile applications that allow customers to trade and even deposit checks. Still, the firm hasn't regained the trust of clients since the financial crisis. In a recent poll by independent research firm Forrester, only 40 percent of the broker's customers agreed with the statement "my financial adviser does what's best for me, not just its own bottom line." That's up from a year ago, but it remains among the lowest of the brokers we reviewed. John Thiel, the head of U.S. wealth management for Merrill Lynch, says this is an industrywide problem: In the aftermath of the financial crisis, he says, many investors still distrust Wall Street in general.

5 Wells Fargo Advisors

WELLSFARGOADVISORS.COM
NUMBER OF BROKERS: ***15,250***
NUMBER OF BRANCHES: ***1,500***
NOTEWORTHY: ***Ranks last in customer satisfaction***

■ Among the brokers in our survey, Wells Fargo ranked last in a customer-satisfaction poll by J.D. Power, with the broker's clients giving it low marks for the performance of its investment recommendations and for what the clients perceive as high fees. Those scores contributed to Wells Fargo falling two notches from our 2011 survey. Brand Meyer, a senior managing director at Wells Fargo, says the firm's internal research shows that customers are satisfied with their own advisers. Meanwhile, Wells Fargo has other strengths to build on, including its account statements, which feature a chart outlining an account's growth on the first page and have been hailed by independent research firm Dalbar as "an industry-leading concept."

6 Morgan Stanley Smith Barney

MSSB.COM
NUMBER OF BROKERS: ***17,650***
NUMBER OF BRANCHES: ***765***
NOTEWORTHY: ***Website gets low marks***

■ Customers are clearly still adjusting to all the changes at this megasize broker, which emerged from the financial crisis following Morgan Stanley's purchase of Smith Barney from Citigroup in 2009. Thousands of brokers have jumped ship, and customer satisfaction has dropped steeply. In the most recent J.D. Power survey, Morgan Stanley Smith Barney customers gave the firm mediocre marks with regard to their relationships with advisers. Its customers aren't happy with fees either. (A spokesperson for the firm questions the J.D. Power results, saying the survey "skews to a lower demographic than our customer base.") On the bright side, the broker's website still ranks among the better and clearer in the group.

But brokers say they're also pushing to improve the relationship by being more accessible. Increasingly, that means offering a growing number of digital options, from online chats to responses to customer tweets. All of the brokers in our survey except for WellsTrade now offer online chat (the brokerage says it's studying whether to offer the feature). On E-Trade, customers can chat 24-7—presumably handy for investors who are up in the middle of the night playing the Nikkei.

The discount brokerages prefer this form of contact because it is much cheaper than staffing call centers, says Lo of J.D. Power. Still, the digital communication is hardly seamless. Three of the 10 brokerages in our survey failed to respond to one or more of the test e-mails we sent to their customer-service departments. On the other hand, E-Trade responded almost overzealously: When we sent an e-mail through the public website inquiring about opening an account, we were required to give a phone number, and the company called us back four times before giving up. David Poole, the broker's vice president of customer service, says that some queries that come in by e-mail "are more involved, and a phone call is more appropriate." It's a valid point: For any serious problem, of course, investors generally say they'd rather talk on the phone. So it was disappointing that our tests indicated that phone service has slacked off a bit. In past years, the best-performing brokers answered our calls before reaching the one-minute-on-hold threshold; this year, none did.

Customers won't mind the hold times, experts say, as long as the advice is helpful. TradeKing, our category winner, does a lot of communicating via social media and responded the fastest to our test e-mails. But Doug Sarbon, an Atlanta audio engineer, has been relying on its phone service. Sarbon began calling TradeKing's customer-service line almost daily back in 2009, when he first started trading options, sometimes talking to the representatives for a half hour at a time. After the market closed on the day of the flash crash in 2010, he called the help line just to have a "What the hell was that?" chat with a friendly rep. He is sometimes put on hold for a while, he acknowledges, but he has been entertained by the money-themed hold music—especially Kenny Rogers's "The Gambler."

RESEARCH

BEST: ***FIDELITY***
WORST: ***WELLSTRADE***

Ten years ago, the question "How good is your broker's research?" could translate roughly to "How many stock report PDFs will your broker let you download?" Today these research offerings are simultaneously more detailed and more casual. Fonseca, the research director at Celent, says educational offerings such as video libraries, webinars and client discussion forums have grown, in part, because they attract active traders or persuade other customers to trade more often. Social-media forums, for example, where investors trade ideas with each other, can drive up trading volume; they're a "good, inexpensive marketing tool," Fonseca says.

Indeed, research tools have become so important that most of the brokers we reviewed are pretty evenly matched. Corporate Insight, a financial-services research firm that studies brokers' market commentary, news alerts and fund reports, gave top marks to four of the 10 firms we studied. Fidelity Investments, the winner in this category, gets a slight edge because it has been particularly aggressive about relaying research via Twitter and Facebook. The brokerage has been moving many of the trading tools and research features from its Active Trader Pro platform—including sophisticated charts and complex options alike—to the standard site most of its customers use. James Burton, president of Fidelity's retail brokerage, says the firm is "democratizing" those tools. On the other hand, WellsTrade lacks a few of what have become online broker basics: Features such as an asset-allocation tool and presence on Twitter and Facebook, the firm says, are all "on our road map" but won't be available until at least next year.

TRADING TOOLS

BEST: ***FIDELITY***
WORST: ***WELLSTRADE***

Kirk Duplessis, a 28-year-old consultant in Leesburg, Va., says he supplements his income by trading briskly on the options market. And while Duplessis, a former investment banker, is pretty sophisticated about the market, he does most of his trading on Thinkorswim, a website that's at least theoretically open to any Joe Blow. This online options platform from TD Ameritrade lets him open multiple windows and see his account balance, trading page and charts, all on the same screen. Compared with what other Web-based trading platforms offered when he first started trading stocks—and even with what many are offering now—he says, "it's a different beast altogether."

In a world where more Main Street investors are comfortable trading at 3 a.m. ("We call it bedside trading," says a TD Ameritrade executive), trading tools have

14.5 SECONDS
Processing time for a trade on ***WellsTrade***—four times slower than the fastest brokers

quickly evolved. More than 75 percent of all discount brokerages have iPhone apps now, while more than half have apps for Android phones. Brokers are convinced that it's having the desired effect: Among the top 100 financial executives surveyed by Corporate Insight, 68 percent reported that their mobile applications are having a positive impact on their businesses.

Fidelity wins this category, with E-Trade and TD Ameritrade close behind. All three offer after-market trading, streaming quotes and options trading via mobile phones. Of course, the most important part of the online brokerage experience is placing a trade. In our survey, which used data from independent website tester Gomez, Fidelity was the fastest brokerage at trade execution, clocking in at less than four seconds per trade. The two slowest brokers of the bunch—WellsTrade (14.5 seconds) and Merrill Edge (16 seconds)—took almost twice as long as the industry average. Merrill Edge says some recent technical upgrades are improving trading speed; Wells Fargo says security measures might add extra seconds to its trading time.

MUTUAL FUNDS AND INVESTMENTS

BEST: ***FIDELITY***
WORST: ***SHAREBUILDER***

One of the longest-lasting divides in the brokerage world is between the all-you-can-eat buffet brokers and the stripped-down fast-food firms. The ones in the former category—think Fidelity, Charles Schwab and TD Ameritrade—have tried to offer just about every investment option a customer can think of, from gazillions of mutual funds to more-exotic fare, including futures, foreign-exchange trades and options. Of course, brokers who provide these aren't just being altruistic; the more-exotic investments tend to mean higher fees and bigger profit margins. For example, the average option trade at the brokerages in our survey costs $25, more than three times as much as a stock trade. About 16 percent of online customers now trade options, according to J.D. Power, and brokerages' commissions from options trading are up more than 70 percent since 2005.

4,800
No-load mutual funds available through ***Zecco***

700
No-load funds available through ***ShareBuilder***

A lot of the more esoteric investments are also popular with active traders, who tend to be more lucrative customers. In fact, some investment products are available only to customers who are big revenue generators across the board. Fidelity, however, offers a stunningly wide range of investing options to most of its customers, and it's the reason why it won this category. For example, all of Fidelity's retail-brokerage clients can now register online to trade directly in foreign markets.

Some brokers prefer to stick with meat and potatoes. ShareBuilder, which focuses almost exclusively on stocks, mutual funds and exchange-traded funds, finished last in this category. Dan Greenshields, ShareBuilder's president, says the firm's average customer age is under 40. This means the broker doesn't get a lot of requests for, say, Treasurys. "We'll probably offer bonds 30 years from now," when customers near retirement, he says.

BANKING

BEST: ***MERRILL EDGE, FIDELITY (TIE)***
WORST: ***ZECCO***

A few months ago, Fidelity threw its marketing muscle behind a new product rollout, announcing the debut with breathless press releases and even a live Twitter broadcast. Was all the hype about investing? Far from it: The new product was an iPad app that lets customers take photos of checks, so they can deposit them into their Fidelity accounts. And while Fidelity was the first broker to get the feature on an iPad, that firm and many of its competitors already had photo deposits for smartphones. (Charles Schwab says it now gets half of its customer deposits via digital picture.)

The tech ramp-up may be new, but the broker-in-bank's-clothing phenomenon has been around for a while: Most of the brokers in our survey now offer credit cards, debit cards and online bill pay that are tied to brokerage-linked bank accounts. Sophie Schmitt, an analyst at the financial-services firm Aite Group, says brokers make little to no profit from these services, but they're still a major part of their marketing strategy. "It's done mostly for 'stickiness' and customer loyalty," she explains. And because the brokers don't have some of the overhead of traditional banks, like branch offices or networks of ATMs, analysts say, some of them are providing some mildly attractive perks, like higher interest rates on savings accounts—or refunds on the ATM fees charged by "real" banks. Some brokerages offer these perks only to their active traders or people with large account balances, but the three that finished at or near the top for us—Fidelity, Merrill Edge and Schwab—offer good deals to smaller account holders. The smaller brokerages in our survey, on the other hand, have very little in the way of banking amenities—no credit cards, no ATM-fee reimbursements. (Raneri, the CEO of last-place broker Zecco, says such services don't fit with its focus on active traders.)

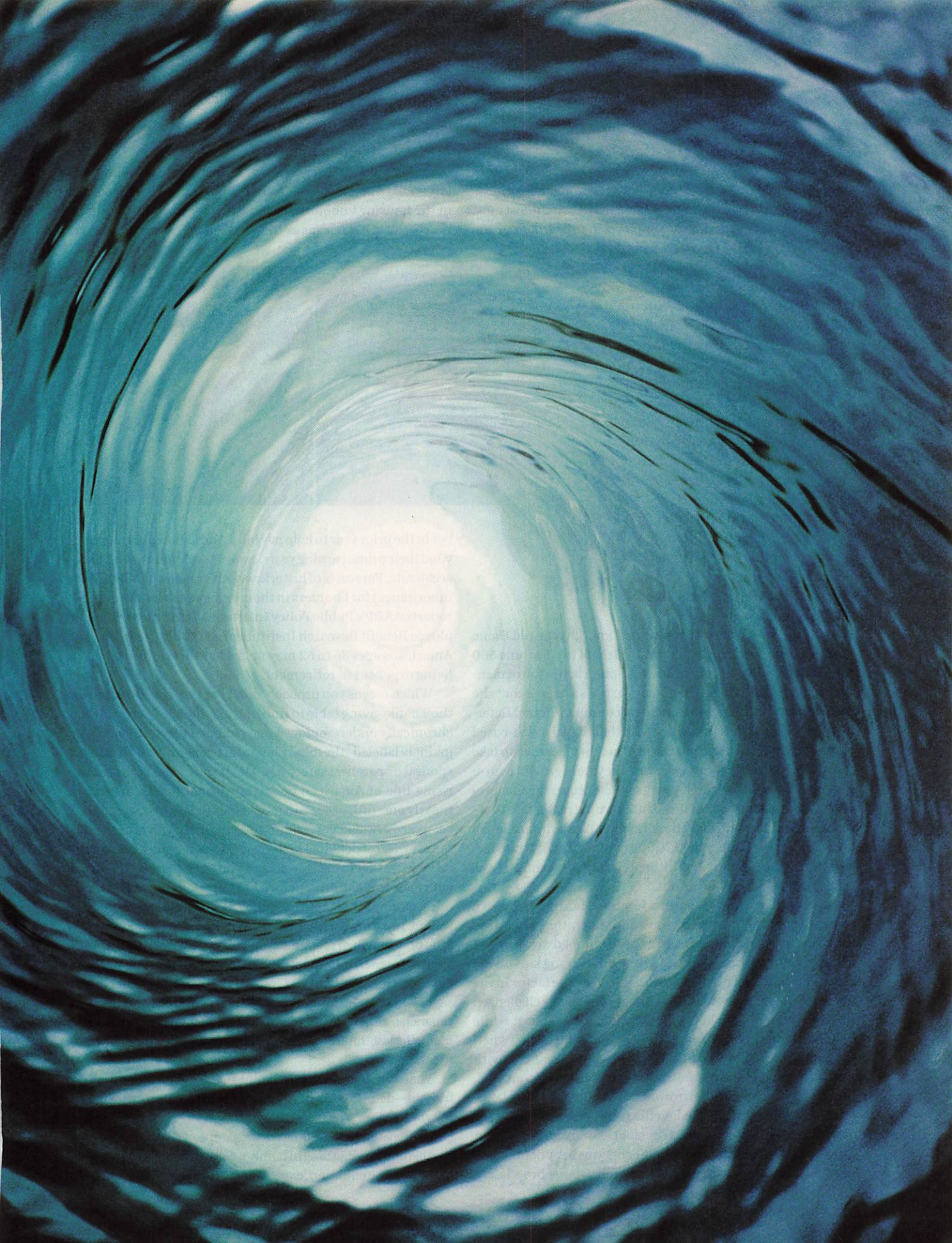
Some brokerages specialize in foreign-currency trading. To see our rankings on those companies, go to SmartMoney.com.

THE SIBLING SINKHOLE

You may have shared everything growing up—from clothes and vacations to the family car keys. But are you ready to share retirement funds with your financially struggling brothers and sisters?

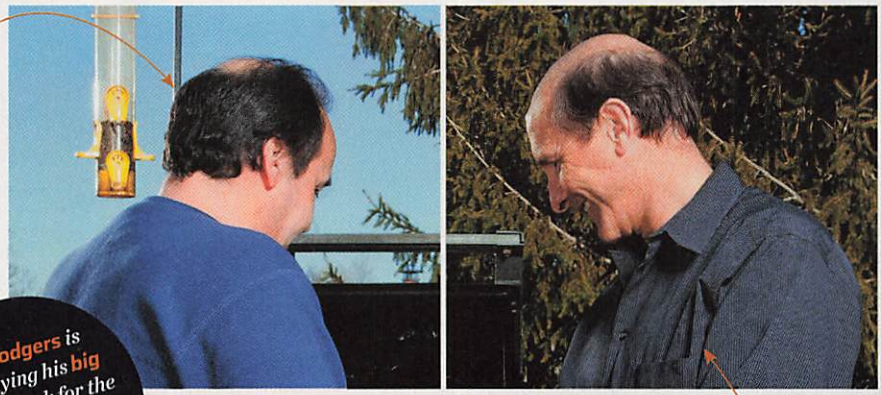
BY MISSY SULLIVAN

PHOTOGRAPH BY JAN KRONSTAEDT/GALLERY STOCK



When Greig Detering left behind his comfort-

able life as a telecom engineer and set out to do missionary work abroad, he had a powerful calling—but not a lot of financial firepower. While he owned a home in Phoenix, he says, he lost most of his nest egg in 2002 when his employer's stock dropped from $83 to (ouch) $2 a share. Fortunately, after his own resources ran dry, Detering's fledgling ministry found a steadfast benefactor who kicked in $5,000 to $20,000 annually for several crucial years—to help support his evangelistic efforts across more than a dozen countries. And when Detering, now 54, began looking for a "transportation and communications hub" for his South American operations, the same supporter kicked in $120,000 to purchase a Buenos Aires condo in a deluxe residential tower, complete with a pool, a fitness center and conference rooms. It wasn't the larger option on the higher floor that Detering had originally proposed—but, hey, a kid sister has to set *some* limits.



Jim Rodgers is still paying his **big brother** back for the loan that let him buy the house they grew up in.

It didn't hurt that the sister in question, 53-year-old Diane Paddison, had been chief operating officer of two Fortune 500 companies and, Detering admits, had done a better job of managing (read: diversifying) her nest egg. It also helped that she and her husband, Chris, a management consultant, found Detering's missionary work in keeping with their largely faith-based philanthropy. Then there was the fact that they "learned to take care of each other," Diane says, when they were growing up on the family farm. But while Detering says the property has appreciated 25 percent in value since 2007, owning real estate overseas turned out to be a huge administrative hassle; in fact, much of that gain was offset by the $20,000 cost of officially transferring the title to his ministry. Ultimately, says Detering, "it was really just them helping me out."

Say, Brother, can you spare a...few thousand bucks? We've all heard about the so-called sandwich generation, anxiously watching as its retirement savings are chipped away by the needs of aging parents on one side and boomerang kids on the other. But financial planners say that few people factor in the impact of other family members—that is, financially challenged siblings—who might sheepishly slip in a loan request while helping dry the holiday dinner dishes. Sometimes—like when the contributing sibling can afford to provide the help, as with Detering and Paddison—the arrangement can work out well. (Bonus points when the borrower's needs align with the lender's charitable values, and when the receiving sibling isn't addicted to gambling, controlled substances or daytime TV.) But experts say that in this unforgiving economy, baby boomers in particular, many of whom grew up in fairly large broods, are seeing a bump in financial requests from close kin who lost a job, ended a marriage or—sounding familiar yet?—got caught in the housing bubble. According to a recent MetLife study, nearly half of Americans say they gave money to a family member in the prior year to help pay bills. And as boomers move beyond their prime earning years, experts say, requests will likely accelerate. Forecasts of historic wealth-transfer windfalls (aka inheritance) for boomers in the coming years are overstated, reports AARP's Public Policy Institute. What's more, the Employee Benefit Research Institute predicts that nearly half of Americans ages 36 to 62 may not be able to afford even basic living expenses in retirement.

Which means you probably don't have to look too far down the Thanksgiving table to find a struggling sib. Maybe it's the chronically underemployed one (whom one wealth manager jokingly labeled "the family liberal arts major") who has lost a spousal or parental safety net. Maybe he or she is part of the rising tide of American boomers without health insurance (nearly one-fifth of 45- to 54-year-olds in 2010) who could develop a costly medical condition. And with the divorce rate for the over-50 set doubling in the past 20 years, it might be a marital rupture that brings the person you once shared a bunk bed with back to crash on your own kid's upper bunk—while bumming money for everything from gas to his children's college tuition. In a recent retirement study by Charles Schwab, a whopping one-fourth of respondents said they're worried they will have to financially support their siblings. And as the postwar babies try to steer their own ships into a safe retirement harbor, says Gary Gilgen, director of financial planning for Rehmann Financial, an advisory firm with some $2 billion under management, the last thing they need is extra cargo: "Some of them really can't afford it."

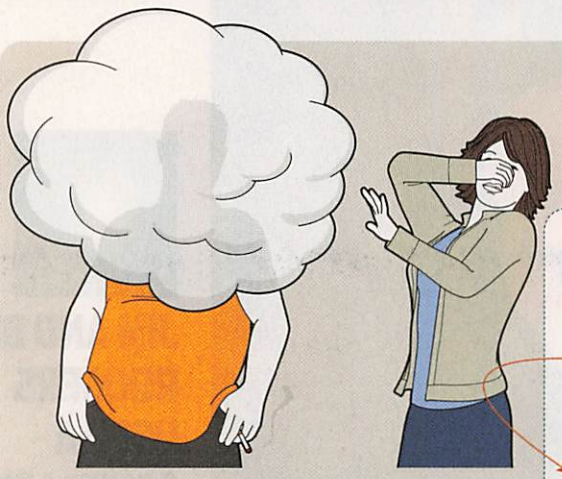
That financial pressure could make a tough—and often fraught—decision to mix blood and bank accounts that much tougher. "Money often is the adulthood trigger for childhood issues," says Suzanne Slater, a Northampton, Mass.–based psychotherapist specializing in family wealth dynamics. On the asking side of the equation, experts say, the risk includes not only

Photographs by Patrick James Miller for SmartMoney

JIM AND BILL RODGERS USED A CONTRACT TO MAKE THEIR BRO-TO-BRO LOAN OFFICIAL.

HELP *THIS* WAY, NOT THAT

HELPING A SIBLING OFTEN GOES ABOUT AS SMOOTHLY AS A FAMILY VACATION, SAY FINANCIAL ADVISERS. BELOW, SOME COMMON SCENARIOS AND WAYS TO AVOID RESENTMENT, SHAME—AND BEING RAINED UPON WITH REPEATED REQUESTS.



THE SCENARIO

Your diabetic, hypertensive, pack-a-day smoker of a brother loses his job—and health insurance.

DON'T wait until he has a catastrophic—and costly—medical event.

DO consider paying for monthly premiums.

THE SCENARIO

A sister who's perpetually in debt wants help with a car loan.

DON'T cosign a bank note.

DO pay for financial counseling and consider lending or giving her a hand-me-down vehicle.

THE SCENARIO

You're appalled to find out that Mom has been paying your brother's rent for the past 10 years—out of the family trust.

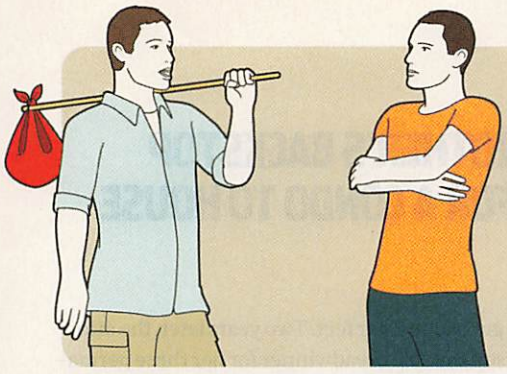
DON'T stew in silent resentment at your lost future inheritance.

DO suggest documenting the amount as an advance on your brother's expected share.

the shame brought on by sibling competition and the resentment of being beholden, but also the prospect that a buttinsky brother or sister will feel justified in doling out heavy doses of advice with their dollars. There's also the "hidden string" factor, where the receiving party is pressured to, say, spend weekends expressing gratitude by cleaning his brother's gutters.

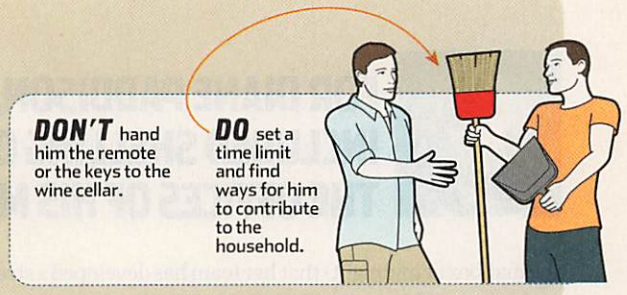
For the giver, problems start with the strong prospect that a family "loan"—especially an undocumented one—can be as good as money flushed. "Precisely because a sibling loves and trusts you, they may expect you to understand when there's a barrier to repayment," says Timothy Burke, CEO of Massachusetts-based National Family Mortgage, which facilitates loans between kin. Indeed, financial therapists, a new breed of psychologists who help people understand their money-related behavior, say the line between compassion and enabling is frequently a blurry one. Plus, the situation can easily rankle a lender's spouse, who may be less inclined to allocate hard-earned marital assets to a brotherly bailout. But as the economy leaves many Americans struggling to pay for basics like homes, health care and higher education, more will be facing the question of who they are willing to backstop in life—and to what degree. "I'm definitely seeing more noise and discussion about

Infographics by Chris Philpot for SmartMoney



THE SCENARIO

Your recently divorced, laid-off brother needs a place to crash.

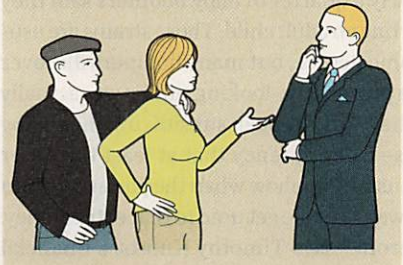


DON'T hand him the remote or the keys to the wine cellar.

DO set a time limit and find ways for him to contribute to the household.

THE SCENARIO

Your sister is pressuring you to hire her unemployed husband in your business. Their oldest is applying to college.



DON'T hire Hubby if he has no related experience.

DO pay for job training or career counseling.

THE SCENARIO

Your hardworking, responsible brother can't get the bank to modify his underwater mortgage.

DON'T offer to finance it yourself—without interest—on a handshake.

DO consider a private loan that's fully documented and registered—and that charges a fair rate of interest, so the IRS doesn't tax it as a gift.

siblings," says Erin Botsford, a Dallas financial adviser and the author of *The Big Retirement Risk,* who says she's seen such requests jump 20 to 30 percent in her practice in the past few years. "To ignore them is to the clients' peril."

Several times a year, Merrill Lynch invites a few dozen well-heeled clients to the campus of a prestigious business school like Wharton or Stanford for an intensive multiday boot camp on the finer points of managing wealth. There are the usual PowerPoint presentations on portfolio structure and asset allocation, but Stacy Allred, director of the firm's private banking and investment group, says there's also a lot of talk about softer topics (think prenups and family beach house squabbles). The conversation gets especially animated when the subject turns to family and friends with upturned palms, according to Allred. These days, it seems, being seen as the moneybags of the brood can put a bull's-eye on your back, whether you succeeded in business, invested savvily, married well—or just didn't squander the family inheritance. Allred says that so many clients have complained of uncomfortable conversations or bizarre requests (one couple got an anonymous note asking them to leave money in

FOR DIANE PADDISON, BEING HER BROTHER'S BACKSTOP INCLUDED SHELLING OUT $120,000 FOR A CONDO TO HOUSE THE OFFICES OF HIS MINISTRY.

the mailbox at midnight) that her team has developed a strategic tool borrowed from the business world: the elevator speech.

It might go like this: "Thank you for sharing this concern with me. My spouse and I have a policy that we take 48 hours to carefully consider a request like this." (Goal: Establish a cooling-off period.) Or this: "We have a policy against mixing money and friendships/family relationships. They're too important to us to risk." (In elevator speak: Please exit on the next floor.) There are multiple variations on the theme, says Allred. But the basic idea? Keep it short enough to get through in an elevator ride. Inject a businesslike formality. And gain control of the conversation before it devolves into wheedling, waterworks or other high-pressure appeals to the heartstrings.

Because, experts say, once the purse is open, the appeals have a way of snowballing—and not just for the 1 percent. New York–based financial planner Kevin Kautzmann says he has one client, a single 56-year-old Manhattan lawyer, who may wish she'd had an elevator speech ready when a recently divorced sister asked if she and her two teenagers could move in until she got back on her feet. Two years later, the attorney still finds herself the sole breadwinner for her three permaguests, on the hook for everything from food and clothes to college-savings contributions. (And did we mention the hefty private school tuitions? Changing schools would be too much of a disruption, he says the sister argued.) Problem is, Kautzmann says, all this new overhead has his client lagging behind on her own law school loans and racking up credit card debt: "If she keeps going, there won't be a retirement."

According to the Pew Research Center, 40 percent of adults with an elderly parent gave them money in the past year. And in another study, nearly a quarter of baby boomers said they are financially supporting an adult child. Those strains are usually anticipated to some degree, but many boomers discover late in the game that a prosperous-looking sibling was actually highly leveraged or that Dad has been subsidizing their baby sister's rent for years—a dependency that at least the sister might assume will transfer somehow when the parents go into nursing care or pass away. "People get used to that extra money. It's like economic heroin," says Timothy Knotts, a financial

Diane Paddison's success as a COO let her give thousands a year to her brother Greig Detering's passion project.

Photograph by Matthew Mahon for SmartMoney

planner in Red Bank, N.J. Indeed, planners tell tale after tale of clients being blindsided by a brother or sister in various financial straits. But, says Marty Martin, a professor of business at DePaul University and a practicing financial psychologist, the filial imperative is not the same as helping a sick parent: "When it comes to siblings, there's one question of being *able* to help and another of being *willing* to help."

Kimberly Foss, the baby of a brood of six, has been both. As president of Empyrion Wealth Management in Roseville, Calif., the veteran financial planner oversees more than $200 million in assets, and advises clients to keep emotion from clouding their financial decisions. But when arriving at the office, those same clients may be greeted by a chatty 63-year-old receptionist who looks remarkably like, well, Foss. For $20 an hour, the adviser has hired her older sister Georgette Burkett to do everything from answering phones and ordering office supplies to getting sushi for visiting clients—an admittedly awkward arrangement, but one that Foss says she's maintained for nine years to help her older sister bolster her retirement nest egg.

It hasn't always been easy. During the financial crisis of 2008, 50-year-old Foss ended up cutting her own salary 30 percent but kept Burkett on full-time hours and pay. And these days, she says, while clients love her always-funny receptionist, she does wish Burkett was more agreeable about all her duties. "Whenever I ask her to scan something," says Foss, "she says, 'I really don't want to do that.'" Burkett, whose previous work experience included medical billing and running a bar, says sometimes the sisters' personal stuff can seep in: "She's a good boss, but she has her issues."

WAYS TO SAY NO

Financial pros say wealthier siblings who get hit up for money with some frequency can avoid some awkwardness by having a preset "elevator speech" ready. Here are a few:

THE PITCH: "Hey, Bro, I'm a little short this month on my alimony payments. Can you spot me $5,000?"

THE RESPONSE: "We have a policy of not lending to family. I value my relationship with you too much to have money come between us."

THE PITCH: "Hey, Sis, any chance you can help with Josh's NYU tuition? The bank cut off our home equity."

THE RESPONSE: "Jack and I have a policy of reviewing these requests together. We can get back to you in a week's time."

THE PITCH: "I wanted to see if you might help jump-start my new business idea."

THE RESPONSE: "Mary and I established a 'values statement' for how we want to spend our money, and we decided to give only to family requests relating to education or shared travel experiences. Good luck!"

Of course, not everyone has the luxury of putting a sibling on the payroll for the better part of a decade. Enter the burgeoning intrafamily loan business—often a place of last resort when today's tightfisted banks say "no way" to a much-needed debt-consolidation loan or mortgage refinancing. These days, anyone considering a plunge into filial financing—and wanting to avoid the "Bro, where's my dough" nag factor—has a handful of do-it-yourself lending firms to choose from that have, by their own account, facilitated hundreds of millions of dollars' worth of deals between family, friends and even strangers looking for a decent rate of interest. National Family Mortgage, for one, says its sibling-to-sibling refinance deals have more than doubled since 2009. Whether these so-called peer-to-peer companies simply provide paperwork and loan scheduling (LendingKarma.com, LendFriend.com) or offer more robust loan "marketplaces," complete with screening and underwriting (LendingClub.com, Prosper.com), they all promise to help lenders formalize the deal, avoid onerous bank fees and sidestep potential gift-tax pitfalls. But even the companies caution that the loans aren't backed by collateral; if a borrowing sibling, say, declares bankruptcy, this debt goes to the back of the proverbial line, behind those of secured creditors. Says Geno Moscetti, CEO and cofounder of San Francisco–based LendFriend, "There's no way to make anything foolproof."

When Bill Rodgers, a 62-year-old national-grocery-chain manager, agreed to sell his half of the family home in Wayne, N.J., to his brother Jim, 54, using a private mortgage, they chose a different way to formalize the $120,000 loan (and no, it didn't involve clinking beer bottles or pinky-swearing on the deal). Bill found a lawyer who charged just under $1,000 to draw up a formal 15-year agreement and register the loan. The arrangement included a payroll deduction for Jim that's routed directly to Bill's bank account, so Bill says the two can enjoy their brotherly boating trips and holiday shindigs without the need to talk money. (He does say his wife wasn't thrilled about his decision to not charge his brother interest.)

But as it turned out, there was one thing none of them could have factored in: Last summer, Hurricane Irene flooded the home, wrecking the foundation and ultimately reducing it to a condemned heap. But Jim's still paying the mortgage note, and the brothers say it will eventually be transferred to a new house, once the insurance and other matters are fully settled. "I didn't think it would be a problem," says Bill of the six-figure outlay that would otherwise be earning interest in his account. "I was doing it as a favor to my brother."

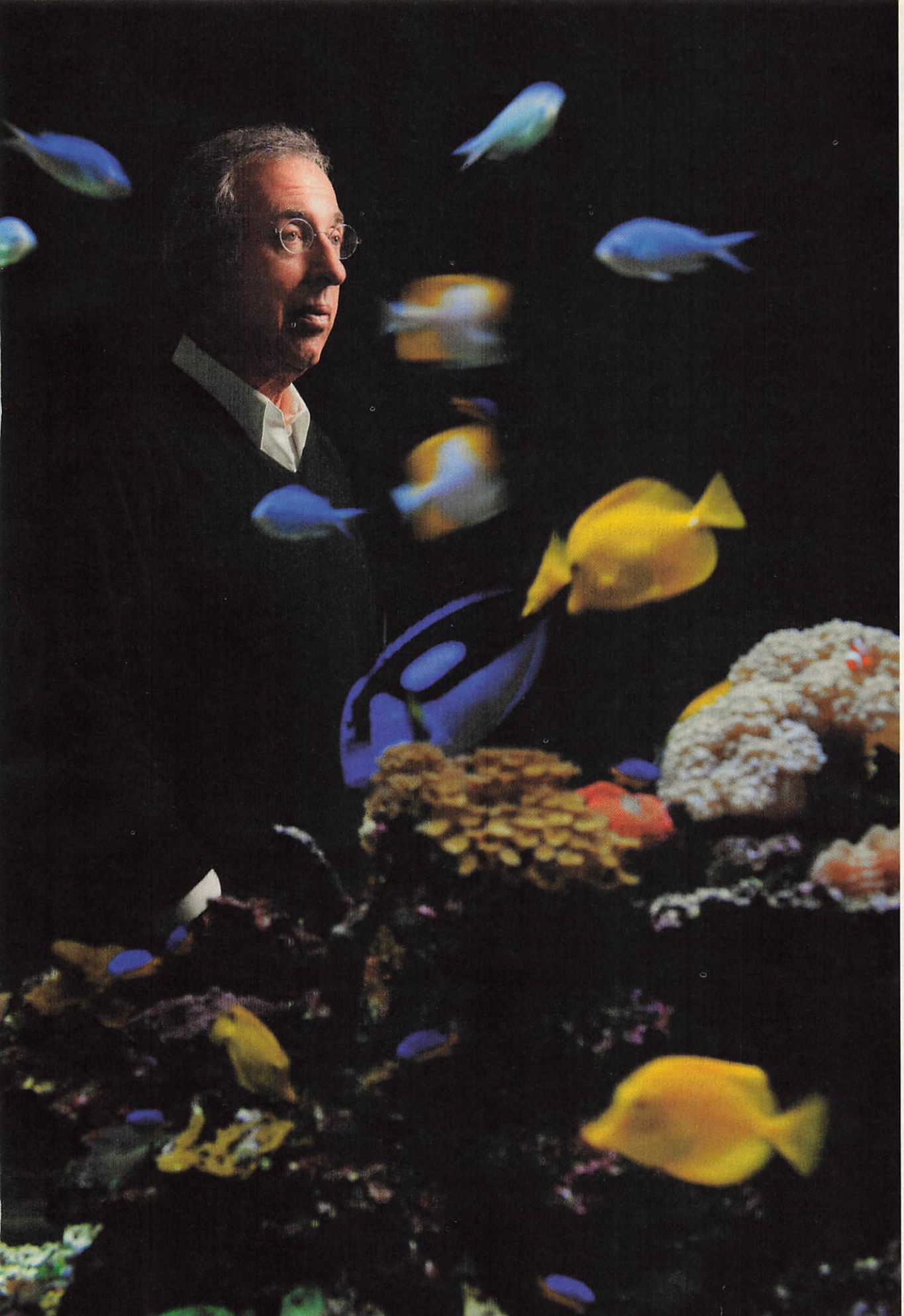
IN DEEP

Ron Baron could do no wrong as a stock picker in the '80s and '90s (and has a $132 million home to show for it). But can he regain his magic touch in this market?

BY DYAN MACHAN ■ PHOTOGRAPHS BY DAVID YELLEN FOR SMARTMONEY

A **LITERATURE FAN** who met Ron Baron, the 68-year-old founder of mutual fund family Baron Funds, might be reminded of Voltaire's fictional character Candide—the incorrigible optimist who lived "in the best of all possible worlds." Baron's perch on the 49th floor of the GM Building in New York is an open, airy and museum-worthy parallel universe dominated by bright and cartoonish Roy Lichtenstein paintings, gigantic and playful Alexander Calder mobiles and a glass-walled conference room where colorful fish swim in mural-size aquariums. (Adding to its otherworldliness is that it is one of Manhattan's highest-priced commercial properties.) After giving a visitor a tour of the collection, Baron heads down a flight of stairs, pausing by his indoor koi pond and gesturing across the marble expanse where his company is staffing up—with $17 billion in assets already, Baron is on the hunt for more customers.

Settling in for an interview, Baron displays a bright disposition that reflects his office view, an optimism that begins with his view of the market—"stocks are the cheapest I've seen in my life," he says—and extends far beyond. Sitting in a rocking chair that he says once belonged to John F. Kennedy, he tells a long story about the former president and Marilyn Monroe, and muses on a recent meeting he had with a portfolio company executive. "What a fun business I have, where I get to meet all these interesting people," says Baron. Indeed, those interesting people also include stars like Sting



and Hugh Jackman, the headliners at the celeb-studded conference he held last November in Lincoln Center's Metropolitan Opera House. In an industry where understatement of wealth is the norm, events like this show how much he stands out: If money managers resemble a row of black Lincoln Town Cars, Baron is the yellow Lamborghini. It's quite possible he's the happiest money manager too. "How could you not be optimistic being in this country? And having these opportunities?" he asks.

And who could be surprised by Baron's sunny attitude, at least if you adopt a 30-year view of his now-legendary career? The fund shop he launched in the late 1980s built a stellar reputation in small-cap "growth" investing, focusing on fast-rising stocks and riding them to impressive performance numbers. A $10,000 investment 15 years ago in Baron Growth, the fund Baron has managed the longest, would be worth $43,000 today, nearly twice as much as a similar investment in Standard & Poor's 500-stock index. In all, the performance puts Baron Growth in the top 15 percent of stock funds in its category, and the fund's success has helped make Baron a billionaire.

But as bright as the outlook may have seemed in, say, 1998, it's now 2012, and the past few years have been a grimmer story. Since 2007, Baron Growth has been just about even with its benchmarks, and other funds in his family are also mediocre performers. Most money managers, of course, have struggled to thrive since the financial crisis. Baron's bad times, however, look even gloomier compared with his high-flying past, and investors are voting with their feet: Shareholders have withdrawn money from Baron Funds more than three times as fast as they have from stock funds in general. And critics, including some former customers, are questioning Baron on everything from his strategy to his fees—one thing about his funds that still ranks near the top. "He seems willing to kill the goose that laid the golden egg," says Chris Davis, Morningstar's senior mutual fund analyst.

Baron says his clients don't mind paying up for his services, and he attributes most of his performance problems to investing errors he made during the worst of the crash. Indeed, he thinks his namesake firm is positioned for even greater things, and he's aiming to capture a bigger share of the multitrillion-dollar 401(k) business. "I am paying the price but getting back on track," he says. That's about the response you'd expect. After all, as the story goes, Voltaire's Candide maintained his optimistic view even as he endured the Spanish Inquisition. But Baron watchers can only wonder: Is he right this time?

Since 2007, the flagship Baron Growth fund has been just about even with its benchmarks, and other funds are also just limping along.

QUESTION BARON'S UPbeat take on life and the markets, and he'll respond with his own Horatio Alger–like story, one that digresses to include the Holocaust, the Jewish diaspora and a lucky-to-be-American patriotism. He grew up in Asbury Park, N.J., in humble circumstances, and says he started with "negative net worth," because he borrowed money for college and law school. Today, he's worth $1.5 billion and lives on an East Hampton property that cost nine figures in 2007. Reports at the time said he bought it for $103 million, but he's quick to correct a reporter: It was actually $132 million.

Baron carved a path to that wealth with savvy stock picking. As a salesman pitching stock ideas to money managers in the 1970s, he developed a reputation for canny calls on small, unloved companies. Realizing that his ideas were making others rich, he started his own money-management firm in 1982, and in 1987 he launched his first mutual fund, Baron Asset. Even during a long bull run in which investors had the wind at their backs, Baron's performance stood out, aided by investments in entrepreneurs like Ralph Lauren and casino magnate Steve Wynn. Between 1988 and 1998, Baron Asset racked up returns of 34 percent or more in four different years. He mostly avoided the tech-stock run-up and the 2000 crash, a feat that helped him rise to the top of the performance charts. And in 2004, another of his funds, Baron Partners, was the top-ranked fund in the entire industry, with a 42 percent return.

There were blips along the way, of course—some of which foreshadowed challenges to come. Baron built his early success with "concentrated" funds that owned just a few stocks he knew intimately. As his growing reputation lured more money, Baron had to choose between buying more stocks and building bigger stakes in stocks he already owned. He chose the second path, and by 2000, his funds owned a hefty stake of around 30 percent in the auction house Sotheby's. But when Sotheby's was implicated in a price-fixing scandal, its stock cratered, and Baron's clients lost more than $250 million in just a few weeks. (Today, Baron explains, no new investment can account for more than 10 percent of any of his funds.)

Trying to combat the headaches of growth, Baron closed a couple of funds

PHOTOGRAPHS BY CAMERON DAVIDSON (ESTATE); BETTMANN/CORBIS (EINSTEIN); STEPHANE CARDINALE/CORBIS (STING); GEORGE ROSE/GETTY IMAGES (WYNN); BETTMANN/CORBIS (BABE RUTH)

A BARON'S LIFE

Ron Baron's fund family now has $17 billion in assets and 114 employees—almost twice what it had in 2006. His personal wealth and reputation have grown along with his business. Here, a snapshot of Baron's world.

◀ A 52-acre estate in East Hampton, N.Y., bought for $132 million (and upgraded for millions more). His "three houses in one" residence is designed for visits from his two sons and their families.

Baron Funds brings in roughly $190 million in fees annually. As a group, the firm's funds are more expensive than 77 percent of similar funds, according to Morningstar.

SEPTEMBER 2011
"There are so many opportunities."
—FORBES.COM

MARCH 2010
"U.S. stock prices remain far below levels they achieved two years ago. This offers significant investment opportunity."
—BARON FUNDS QUARTERLY REPORT

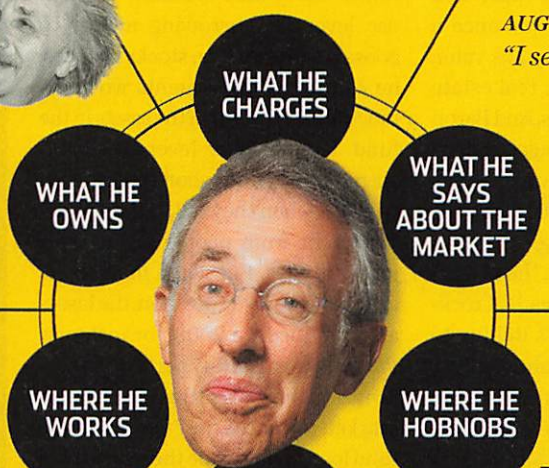
AUGUST 2007
"I see...many opportunities."
—SMARTMONEY

DECEMBER 2005
"We thought [large growth companies] were getting cheap and represented a good opportunity."
—INVESTMENTNEWS

◀ One of Babe Ruth's Yankee contracts

A rare letter from Albert Einstein ▶

A five-bedroom, $10 million–plus Palm Beach, Fla., apartment, and a home in Vail, Colo.



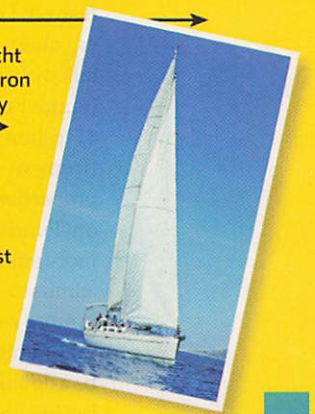
The 49th floor of the GM Building in New York City, with floor-to-ceiling glass, Baron says, "to democratize the view." Furnishings include:

Wall-mounted inset aquariums and koi ponds. "A beautiful office means more productive employees," says Baron. ▶

Botero sculpture the size of a baby hippo on the conference-room floor

Baron Growth, his biggest fund, has done worse than a third of its peers over the past five years. Over the past 15 years, however, it's a top performer, with a **10.1 percent annual return.**

In 2004, Baron Partners was ranked No. 1 among equity funds, with a **42 percent return.** In four of the past five years, it has ranked in the bottom half of similar funds.



Il Lugano Yacht Club, Fla. (Baron says it's really just a dock.) ▶

The UJA-Federation of New York honored Baron as a top philanthropist in 2003.

◀ Sting, Elton John, Stevie Wonder and other pop icons have performed at his annual investor conference.

Socializes with Steve Wynn, of Wynn Resorts, and has dined with Michael Milken, former ◀ junk-bond king and ex-con.

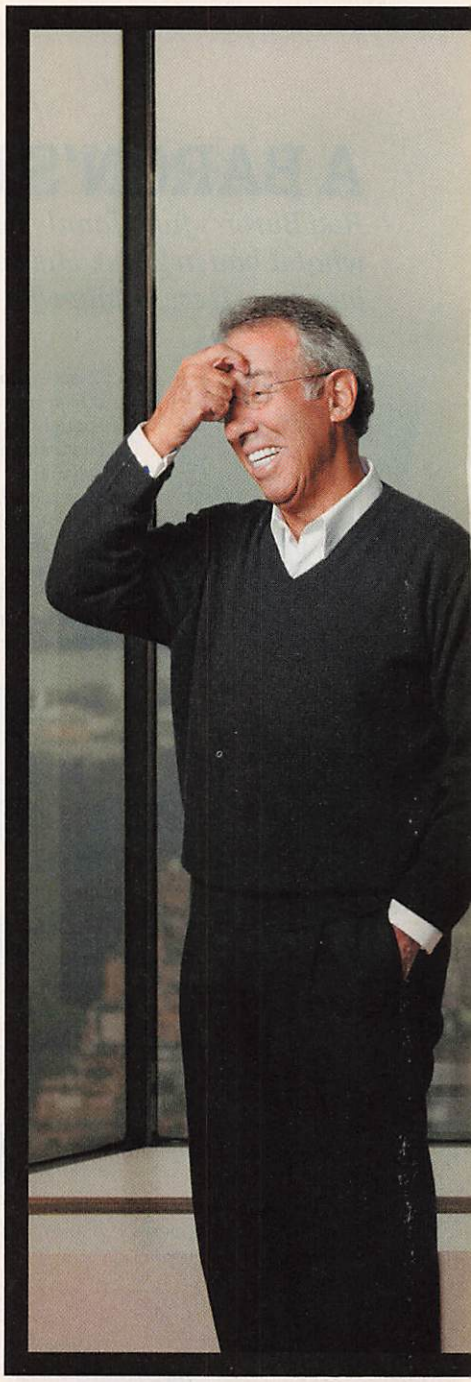
to new investors in the mid-2000s. But he soon reversed himself, reopening them: Stocks of all kinds looked cheap to him then, he says, and he couldn't take advantage of them if he stuck to a small-fund mentality. Certainly, the expansion gambit worked: By the end of 2006, his firm managed $17.3 billion, about 60 percent more than it held in 2004. And more assets, of course, meant more management fees for Baron; by 2007, he had cracked *Forbes's* list of the 400 richest Americans. "I am blessed," says Baron.

BARON NOW HAS A STAFF of 114, nearly twice what he had in 2006, and he's added four funds to the roster in the past five years. A company that was once a small-cap specialist today has value and international funds, real estate and natural resource funds. And Baron envisions growing much bigger, bringing in assets from every source. "Retail funds, employee plans, 401(k)s, pension and profit sharing, high net worth—all are important," he says effusively. Leaning back in his JFK rocking chair, Baron says he's itching to talk with Edward "Ned" Johnson III—founder of Fidelity Investments, the $1 trillion titan that dominates the retirement-fund world. Reaching such proportions would mean growing Baron Funds' assets almost 60-fold, a more ambitious goal than even Baron admits to—he says doubling in 10 years is more reasonable.

But meeting even that goal could be a double-edged sword. To date, going big hasn't been great for Baron's shareholders. Indeed, as Baron has become more baronial—staffing up, building his personal wealth—performance, particularly of the funds he manages himself, has suffered. Baron Growth has sunk to midpack status, trailing the S&P 500 by about seven percentage points over the past year—and that's not the only marketing problem it faces. Ten years ago, three-quarters of the stocks it owned were small caps with a market value of $2 billion or less. Today, the fund is eight times as big, and only 35 percent of its stocks qualify as small. The result: In 2011, Morningstar changed the fund's designation from small-cap to mid-cap. That distinction could cost Baron millions of dollars in business, retirement-plan experts say, because the midcap category is far less popular than small-cap funds among plan organizers. (Baron says he strongly disagrees with the change; his company still markets Baron Growth as a "small-cap growth" fund.)

Baron Partners, the former top-ranked fund, has faced even rockier times. The fund's rules allow Baron to use leverage, borrowing money to goose his exposure to stocks he loves; he can make investments worth as much as 133 percent of the assets in the fund. Unlike other leveraged managers, Baron doesn't short stocks, or try to profit when they fall. "I don't want to benefit from people losing their jobs," he says. But when markets go against a leveraged position, the losses are amplified. In 2008, for instance, Partners was down 47 percent, 10 percentage points worse than the broader market. (Over the past five years, the fund lost money while the market was up slightly; over the past year, the fund trailed the market by 10 percentage points.) Baron says his mistake was buying lower-quality stocks during the worst of the crash: "I screwed up," he says. In a 15-year period, Baron says, Baron Partners and Baron Growth still outpaced the market; and he avers, "I'm going to be right again."

Not all of Baron's customers, however, will wait for that day. Since 2007, Baron Partners lost 32 percent of its assets to client withdrawals, while investors pulled nearly 15 percent out of Baron Growth. Some of the shift has been part of a general equity phobia among investors, and that's what



Baron attributes the withdrawals to. But the exodus has been more pronounced at Baron Funds; the company as a whole suffered an outflow of 18 percent of assets over the past four years, while overall, U.S. stock mutual funds reported only a 6 percent decline, according to Morningstar. Among those abandoning ship is Art Cohen, a Chicago financial adviser who oversees $400 million. Cohen is

Baron says that most of his customers don't care about his funds' higher-than-average expenses, as long as he delivers good returns. "We are not trying to be Wal-Mart."

in the process of pulling 80 client accounts he has had for around 10 years with Baron Partners. By making big leveraged bets, Baron is "in effect saying 'I know better than everyone else,'" says Cohen, whose clients are no longer comfortable with that risk.

Another factor that's weighing on customers: Baron's fees are among the highest in the mutual fund industry. The annual expenses on the Baron funds range from $130 to $170 per $10,000 invested; the industry average, according to Morningstar, is $110. Typically, as funds grow larger, economies of scale kick in, and some savings are passed on to shareholders. But Baron Growth, with about $6 billion in assets, still charges $130 per $10,000. Baron Funds has never reduced fees on its funds, though, like most fund companies, it does offer some reduction for customers who invest $1 million or more. Baron's fees were more justified when his funds were smaller and performed better, according to Morningstar's Davis, but now "they are tougher to stomach."

For some customers, Baron's spending can also be hard to swallow. Baron Funds' space in the GM Building costs an estimated $150 to $170 per square foot in rent, or more than $6 million a year, according to Neil Sroka, president of real estate firm Douglas Elliman Worldwide Consulting. The investment conference also costs multiple millions: Hiring the likes of Sting, Elton John and Stevie Wonder (all recent Baron guests) can have a $2 million price tag; renting Lincoln Center's Avery Fisher Hall or the Metropolitan Opera House is another $100,000 proposition. Baron prefers not to comment on what he spends on his conferences, except to say that the cost of the entertainment comes out of his own pocket. He admits: "It is not inexpensive." Cohen's rejoinder: "It's all paid for by me from his high management fees."

Based on a rough breakdown of his fees, Baron Funds' $17 billion in assets produces an estimated $190 million in annual revenue. If the company had charged the industry average, it would have brought in closer to $165 million. Could Baron skip the frills and simply pass the $25 million difference along to shareholders in the form of lower fees? Baron contends that most people don't care about the price tag. "We are not trying to be Wal-Mart," he says. "If people want low fees, they can go to Vanguard."

IF PEOPLE WANT UNBRIDLED enthusiasm for stocks, on the other hand, they can stick with Baron. He has never met a market he didn't like, and the current one is no different. His reasoning: In the past decade, the stock market has barely moved the needle, yet companies' earnings have "gone up tremendously." Where stocks as a group historically have traded at around 15.5 times earnings, they are now trading at around 12 times, by Baron's estimation, while using low interest rates to borrow and expand. He ticks off stocks he's falling in love with: electricity company ITC Holdings, hotelier Hyatt. Once investors lose their skittishness about stocks, he says, 1990s-style returns could come back: "We are on the verge of this."

Buoyed by that optimism, Baron is adamant that even though he's at retirement age, he won't be getting out of the stock-picking game. Here, too, he cites Fidelity's Johnson as a role model: "Ned is 81 years old, and he loves to work, and he comes in every day," Baron says, citing intel he picked up from a country-club contact. In the presence of Baron's blend of enthusiasm and ambition, Candide comes to mind one more time: Voltaire's hero, at his peak, was swimming in gold and jewels. Caveat and spoiler alert: He eventually wound up a farmer—much less wealthy, but still happy.

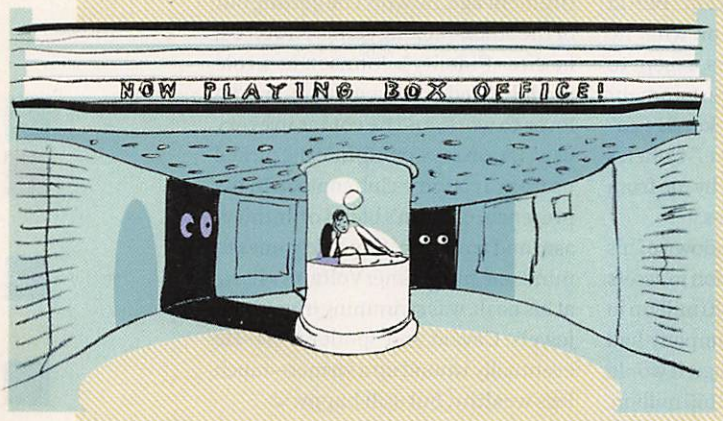
10 THINGS

Hollywood Won't Tell You

By Charles Passy

"The real nail-biter? Our balance sheet."

1 Picture it: captains of industry struggling to stay relevant in a world they no longer understand. It may sound like a *Citizen Kane*–esque cinematic saga, but it's actually the story of today's studio executives, say film-industry watchers. The U.S. box office take dropped almost 4 percent in 2011, to $10.2 billion, marking the second straight year of decline. The root of the problem, of course, is the growing popularity of home viewing via Netflix and other video-on-demand outlets. Last year, consumer spending on video streaming jumped 50 percent, to $3.4 billion, reports the Digital Entertainment Group. The change has as many implications for the movie business as digital downloading did for the music industry. Granted, Hollywood makes some money from streaming sales. But those digital dimes aren't enough. Add it up and you have a potential crisis, says Christopher Sharrett, a professor of communication and film studies at Seton Hall University: "We could well be seeing the end of motion pictures in theaters."



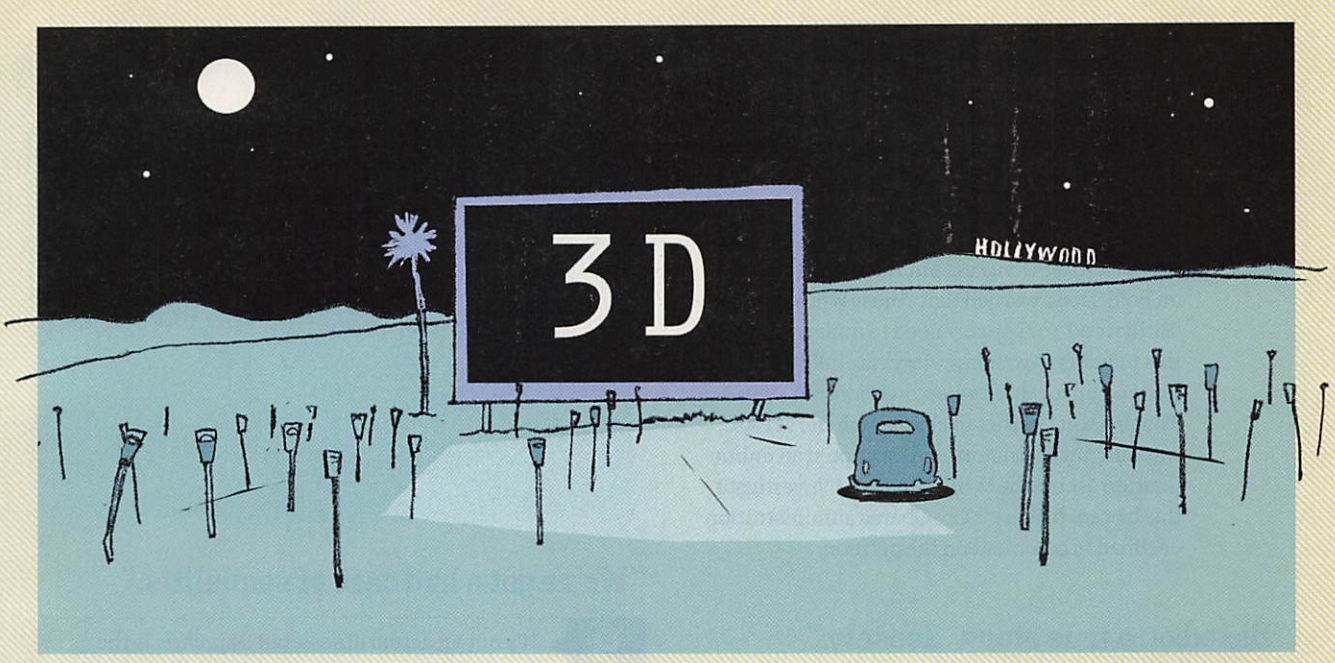
"3-D is for suckers."

2 So what are moviemakers doing to bring more bodies into theaters? They're revisiting an innovation of decades past: 3-D. And not everyone who tracks Hollywood is wild about the trend, saying it's a passing fad. Plus, action films don't always translate well to 3-D. *Boston Globe* film writer Ty Burr recently carped about the "sins against the visual cortex" perpetrated by 3-D releases *Clash of the Titans, Gulliver's Travels* and *Green Lantern*: They "aren't just terribly written, they're terrible to look at, with actors' faces separated from the backs of their heads," he wrote. Of course, Hollywood doesn't quite see it that way. In a 2010 interview, *Clash of the Titans* director Louis Leterrier praised today's 3-D, saying what viewers see on the screen is "exactly what it looked like on set." But either way, consumers are paying the price for the new-old technology: Admission to a 3-D flick is generally $3 extra.

"Movies are thinly veiled commercials."

3 Many moviegoers may recall how a trail of Reese's Pieces lures the alien out of hiding in *E.T.: The Extra-Terrestrial*. That's classic Hollywood product placement, circa 1982. Attracting an

Illustrations by Istvan Banyai for SmartMoney



alien nowadays would require much bigger bait: Hollywood has increasingly come to rely on Madison Avenue for income. Indeed, product placement has doubled in value since 2005, to an estimated $1.8 billion. This blurring of the lines between entertainment and advertising—a practice consumer advocates condemn—has become so ubiquitous someone even made a movie about it: Documentarian Morgan Spurlock, of *Super Size Me* fame, spoofed the trend in his 2011 picture *Pom Wonderful Presents: The Greatest Movie Ever Sold* (he financed the $1.5 million film through sponsorships). But Hollywood argues that it's a necessary part of doing business—and that ticket sales alone don't cut it: "Somebody has to pay for all this content to be created," says Lindsay Conner, a Los Angeles attorney who has represented film studios.

"New York? Chicago? It's all Vancouver."

4 When Hollywood wants to use a particular city as a backdrop, it faces a choice: scout out settings and deal with potentially pricey or problematic local production crews, or head to a place that has a similar look and is eager to please, particularly when it comes to government financial incentives. Frequently, it chooses the latter, regardless of the possible visual compromise. As a result, some states, such as Michigan and Louisiana, have become hotbeds of production. And Canada—especially the cities of Toronto and Vancouver—has become such a hub that it's been dubbed Hollywood North. Even when a specific location is central to a plotline, filmmakers won't hesitate to shoot elsewhere. A case in point: The 2002 Reese Witherspoon romantic comedy *Sweet Home Alabama* was shot largely in Georgia, because it offered scenic locations and a solid crew of film professionals, explains Michael Fottrell, the film's executive producer. An added bonus, says Fottrell: Some New York scenes could be filmed in Atlanta.

"We boost sales by limiting your options."

5 It should come as no surprise that Hollywood times the release of youth-oriented "popcorn flicks" to the out-of-school summer months. But it might surprise people just how far studios take the timing game the rest of the year: If they deem a film unlikely to make a splash at the box office, industry observers say, they'll release it on a slow, off-season weekend—so it won't have to compete with higher-profile fare, and so it will require fewer marketing dollars. In short, by minding the calendar (as well as the competition) and ultimately limiting options for moviegoers, studios are able to sell more tickets to movies that might otherwise be commercial disappointments, explains Paul Dergarabedian, president of Hollywood.com's box office division. "The scheduling of release dates is like a giant chess match," he says.

"We scratch Washington's back..."

6 Yep, even Hollywood has a lobbying arm: the Motion Picture Association of America, which spent more than $2 million wooing elected officials last year. And its positions aren't always popular with either the public or politicians. Recently, the association, under the stewardship of former U.S.

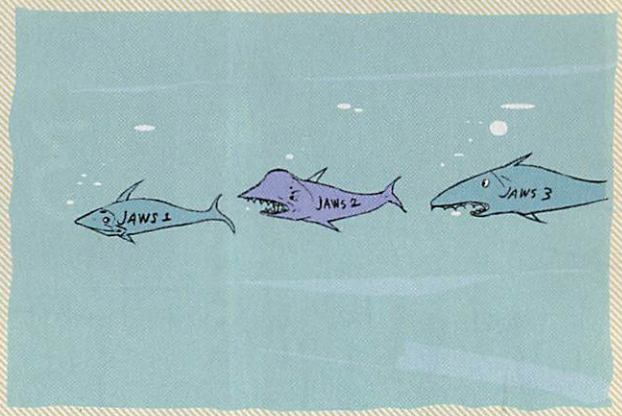
Sen. Chris Dodd, pushed for antipiracy legislation designed to keep films from being easily shared and copied online. But the bills were seen as restricting the overall use of the Internet and failed to garner support. After Congress put the legislation on hold, Dodd warned that "those who count on 'Hollywood' for support need to understand that this industry is watching very carefully who's going to stand up for them when their job is at stake." That led some critics to charge that the MPAA was bullying legislators and prompted an online petition asking the White House to "investigate this blatant bribery." The Obama administration declined to comment on the petition.

"Based on a true story...loosely."

7 Truth is often stranger than fiction, which explains Hollywood's enthusiasm for telling true stories. There's just one problem: Sometimes reality gets in the way of the narrative or spoils the tone of a film. So Hollywood changes it. Not everyone necessarily has a problem with that, though. Chris Gardner, the homeless man–turned–financial whiz whose story was chronicled in the 2006 Will Smith picture *The Pursuit of Happyness*, says he understood why the film's creators changed the age of his son. In real life, the events played out when his child was still in diapers; in the movie, he's 5. The reason? It's hard to capture those poignant father-and-son moments without dialogue, so the child had to be of speaking age. Overall, says Gardner, "I could not be more happy" with the film.

"What you see isn't what you'll get."

8 If you've ever felt cheated after seeing a movie that failed to deliver on what its trailer promised, you're not alone. Moviegoers are increasingly sounding the alarm that Hollywood plays a game of bait-and-switch, building marketing campaigns that present a false sense of a picture's style or subject matter. And at least one film buff has gone to the courts to make the case: A Michigan woman filed suit in September against a Hollywood distributor, saying that she was led to believe, through advertising, that the Ryan Gosling thriller *Drive* was about, well, driving. Instead, the film "bore very little similarity to a chase, or race action film," the suit alleged. And the reaction from *Drive* producer Graham King? "It's called marketing, you know?" he said in a 2011 interview. The suit was dismissed in March.



"We've got a bad case of sequelitis."

9 It's not an actual illness, but *sequelitis* is the term movie critics use to describe Hollywood's obsession of late with pictures that have a numeral in their title. Of last year's 10 highest-grossing films worldwide, nine were sequels. (The lone exception? *The Smurfs*—and even that's practically a sequel, since the little blue creatures gained earlier fame as stars of an animated television series.) But if moviegoers are happy to buy tickets to these pictures-cum-franchises, who's being harmed? Movie mavens maintain it's stifling originality and resulting in the further commercialization of an industry that's already overcommercialized. "It's like, 'We can milk anything,'" says Sean Phillips, executive producer of the Yahoo Movies website.

"Of course we recycle. It pays."

10 Sequels may represent the artistic equivalent of recycling, but Hollywood also profits from its real leftovers. As recently as a decade ago, studios extracted silver from the physical prints that theaters sent back following a film's run, resulting in hundreds of thousands of dollars a year in added profits, according to Edward Jay Epstein, a film-business expert and the author of *The Hollywood Economist 2.0*. And today, the industry channels used props and costumes to auction houses that cater to the growing market of movie-mad collectors. The only problem with the squeeze-every-penny-out-of-a-picture mentality is that it's part of the "culture of the suits," Epstein says. In that culture, extra pennies go straight into studio coffers or toward blatantly commercial projects—say, another Smurfs movie. Sure enough, a sequel is already in the works.

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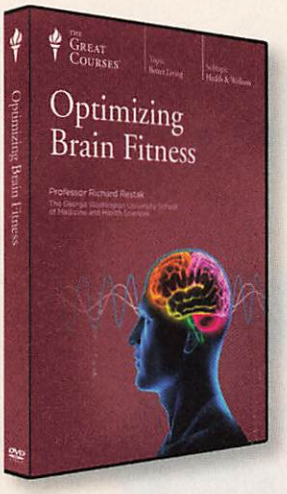

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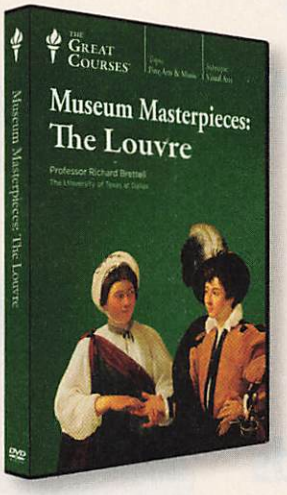

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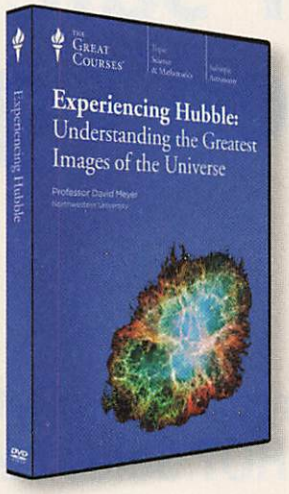

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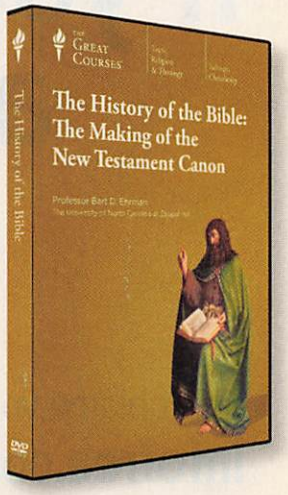

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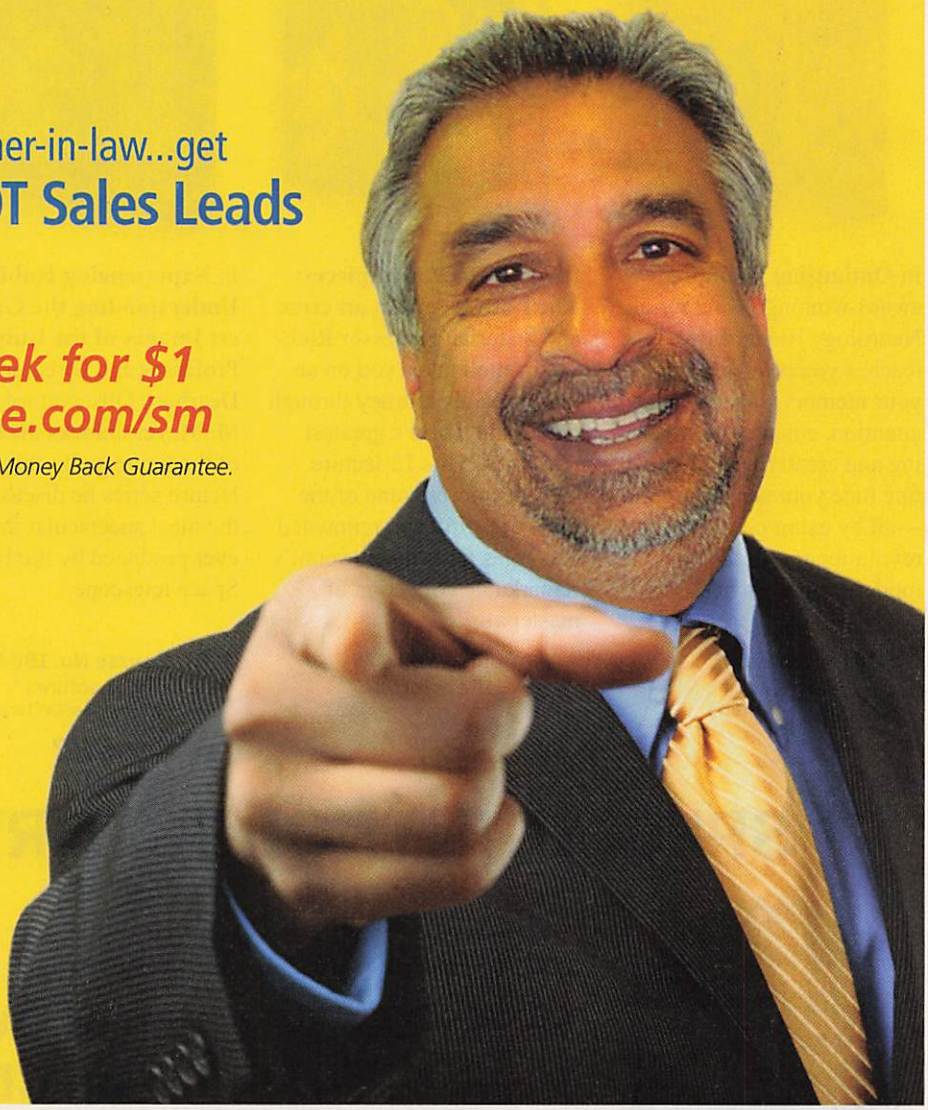

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live in the know

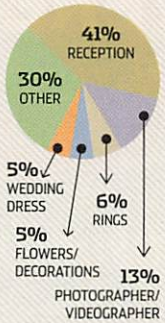
Wedding Crashers

Need an alternative to the $25,000 to-do? Introducing the stealth approach, where couples quietly trade "I dos" in a host of public forums. By Alyssa Abkowitz

IT'S NOT EVERY day that Morag Stewart and Kevin Eggan plan a covert operation. But on a recent morning in Breckenridge, Colo., the pair put together a series of mysterious directions—take the lift to the top of the mountain, look for the guy in the red jacket—that ultimately led 80 of their friends and family to a clearing in the glades. It was a logistical nightmare, but the payoff was big: It was their wedding.

Have you been to a wedding in the woods lately? Or watched a couple tie the knot in the middle of a shopping mall? A small but growing group of intrepid couples are ditching the dulce de leche cake filling and glitzy chandeliers for something a bit more, well, impromptu. They're paying an officiant $300 to marry them in front of a prized painting at an art museum or asking a photographer to capture them whispering "I do" in a botanical garden before the security guards come running. The trend, once limited to a few postrecession penny-pinchers, is now flowering into its own full-fledged wedding-industry niche. Mary Beaty, an officiant in New York, says inquiries for these so-called elopements or guerrilla-style weddings have doubled in the past few years, while Jerry Schwehm, a minister in New Orleans, is now performing three times as many as he did five years ago. "Many of my clients run away from the traditional, scary wedding planning," says Kim Coccagnia, a wedding photographer in Beacon, N.Y. "They want small and intimate."

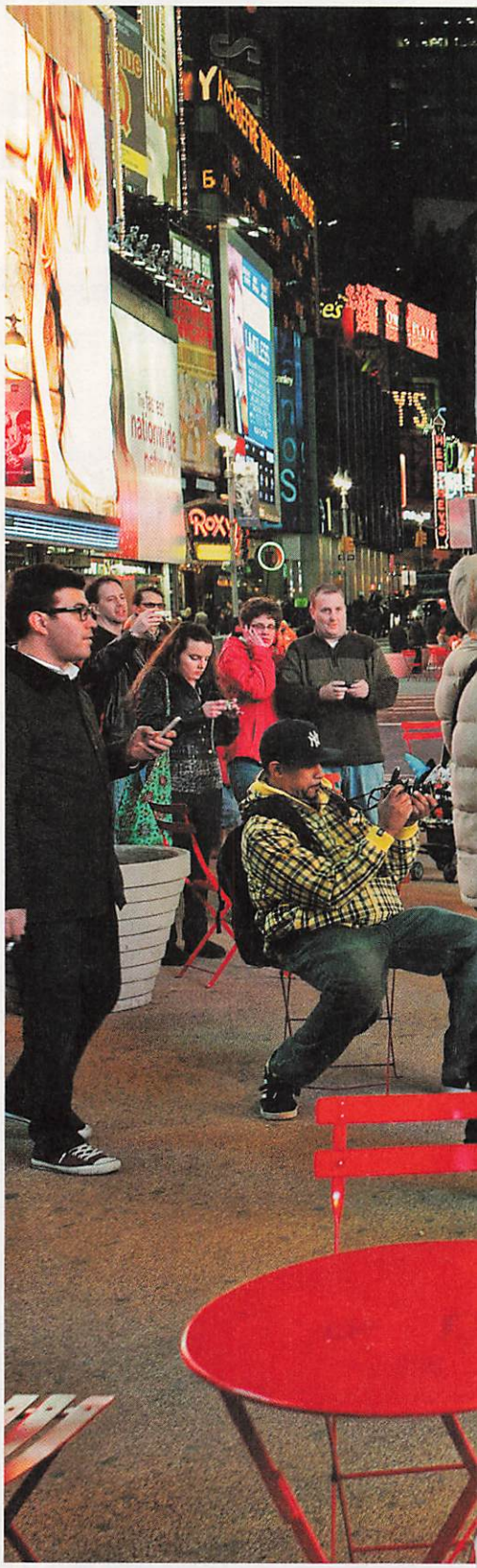
The Bridal Breakdown
Where most of the money goes:



SOURCE: THE WEDDING REPORT

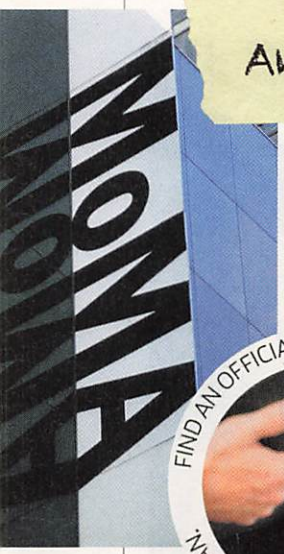
Given the lackluster economy, you can't blame couples for skipping the usual to-do in favor of a simpler—and ideally cheaper—affair. Indeed, the average cost of a wedding totaled $25,600 last year, down 11 percent from the prerecession high. And with more couples footing the bill themselves, there's less pressure to "do what family expects," says Beaty. Then there's the demographic trend: The average marriage age is now 28—up from 25 in 1990. Three-quarters of these couples live together first, which many say dials down the importance of emulating Mom and Dad's traditional wedding. That's particularly true for some longtime same-sex couples in states that now sanction civil unions. "We didn't want to make a huge deal out of it, because we've been together for almost 10 years," says Tasha Moss, who recently married her partner at a nature center in Chicago.

But just because a couple skips the chapel doesn't mean the planning process



PHOTOGRAPH BY KIKE CALVO/NATIONAL GEOGRAPHIC SOCIETY/CORBIS

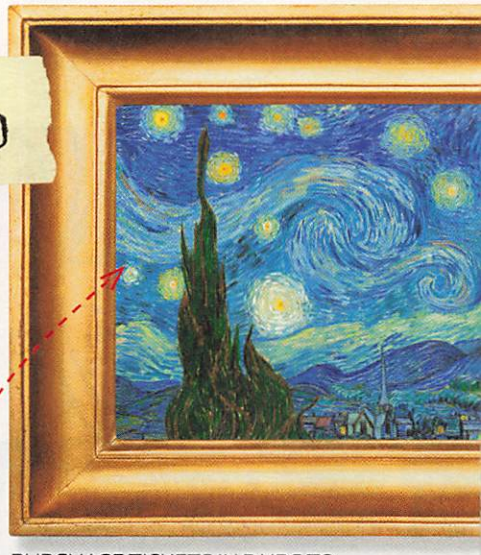
$1,200
Average cost to rent a ceremony venue



Anatomy of a Guerilla Wedding

RESEARCH HOURS AND ADMISSION FOR MUSEUM.

Pick a date and time (preferably when it's less crowded). Alert family and friends of the plan.



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gets any easier. It can be tough to find pros, like photographers and clergy, who are willing to bend the rules, and pulling off a ceremony in a public place without drawing the wrong kind of attention (read: hostile security guards) is no easy feat. Couples who start down the guerrilla path to save may also find that costs add up surprisingly quickly: Despite paying zilch for their ceremony spot, Stewart and Eggan ended up spending close to $30,000 on their Colorado wedding. How? By flying in their favorite Boston band to play at a local bar they rented out. Says Stewart: "It was better than paying $80 a plate at some reception hall."

In some ways, stealth weddings are a throwback to the early 20th century. Back then, couples often said vows at home and then simply went to dinner. It wasn't until the 1950s that the bridal industry emerged and started wooing brides with fantasies of white weddings, says Stephanie Coontz, author of *Marriage, a History.* Of course, now couples don't blink when the $54 billion industry tells them to spend a year planning an event that lasts six hours—and costs as much as a new car.

When graphic designers Carrie and Martin Gee got engaged, they decided to plan a formal affair in the gardens of the Boston Public Library. But as the questions about centerpieces and wedding favors started to stream in, they began to reconsider. "We looked at each other and asked, 'Is this really worth the stress?'" says Carrie. The Gees forfeited most of their library deposit and, several months later, walked into the Museum of Modern Art in New York City. (Coats hid Carrie's dress and Martin's tux.) With five family members, they stood in front of Vincent van Gogh's *Starry Night* and said their vows. "People realized what was going on and started applauding," Carrie says.

Of course, trading vows in front of a Dutch master isn't usually quite as simple as all that. The best guerrilla weddings, pros say, require plenty of coordination. Couples typically start by scouting a potential locale to see if it could feasibly host a ceremony. Often, they find that if they pick a slow time like, say, 2 p.m. on a Friday, there's less chance of getting caught. Then they must track down an officiant who'll agree to an unsanctioned event. As the date gets closer, couples choose whom to invite (less than a dozen people tends to work best), what instructions to give guests (arrive in groups of two to avoid suspicion) and what to say, should staffers ask questions. In Colorado, for example, Stewart and Eggan set up a group rate on chairlift tickets by claiming they were having a family reunion. "They kept telling guests, 'Don't ask any staff where the wedding is,'" says Jennifer Ballard, the couple's photographer.

There's a good reason for caution:

PHOTOGRAPHS BY RUDY SULGAN/CORBIS (MOMA); SEAN JUSTICE/CORBIS (GALLERY)

BROTHER STARTS VIDEOTAPING; SECURITY GUARD STOPS THE PROCESS.
Hug, kiss and GET OUT
TAKE PHOTOS OUTSIDE THE MUSEUM. GET CUPCAKES.
HAVE DINNER AT A NICE HOTEL WITH FAMILY AND FRIENDS.
WHIP OFF COATS; HAVE FAMILY FORM A COCOON AROUND YOU.
OFFICIANT STARTS THE CEREMONY.
EXCHANGE VOWS.
PEOPLE REALIZE WHAT'S GOING ON. APPLAUSE.

Some venues don't allow impromptu ceremonies. The Museum of Modern Art, for example, does not permit weddings and says couples will be asked to leave if they're discovered. Disney World also bans them—unless it's an official "Disney Wedding," which can cost more than $65,000 for a customized affair (Cinderella's crystal coach: optional). And it's not just venues that object to the idea; more-traditional folks may find that reciting vows in front of a large group carries more weight than a private ceremony, says Rachel Sussman, a marriage therapist and the author of *The Breakup Bible*.

Even the best-planned event can hit a snag. Ericka Tucker and Drew Tompkins set up a webcam at their ceremony at Los Angeles's Union Station, so family could watch via the Web. But when security guards spotted the couple's laptop, they cut the ceremony short. (A Union Station spokesperson says the courtyard where the ceremony took place is available for weddings but costs $6,000 to rent.)

Couples also run into problems with family over the ultrasmall guest list these affairs typically require. "It didn't matter that my mom's cousin happens to live in Chicago," says Moss, the Windy City eloper. "We didn't invite her." To soften the blow, Moss and her partner, Mel Morelli, arranged postwedding family dinner parties in several cities. Other couples have used a similar strategy and report that it can help soothe hurt feelings—as well as jack up the bill.

Ultimately, wedding pros say, a successful guerrilla wedding often comes down to one thing: realistic expectations. Beaty, the officiant, says she recently found herself placating a bride who got mad when she heard she couldn't haul a portable arbor into Brooklyn Bridge Park. Says Beaty: "I don't think she understood the idea of being quiet and discreet."

PHOTOGRAPHS BY CORBIS (VAN GOGH); GETTY IMAGES (CHAMPAGNE)

LOW PROFILE, LOW PRICE?

Even couples planning a guerrilla-style wedding can run into some surprising expenses. Here's a breakdown of how stealth-nuptial costs compare with the traditional wedding budget.

Ceremony Venue
Average: $1,200
Guerrilla: $0 to $100 a person
Comment: The average museum entrance fee is just $7, but a ski mountain lift ticket in high season could cost 14 times as much.

Officiant
Average: $200
Guerrilla: $200
Comment: Whether it's a two-hour Catholic Mass or a one-minute flash wedding, the price is roughly the same.

Dress
Average: $1,200
Guerrilla: $50 to $700
Comment: Guerrilla brides who have to outrun security might make better time if they wear something shorter—or if they ditch the gown altogether.

Photography
Average: $1,700
Guerrilla: $300 to $4,000
Comment: Even if the ceremony itself is short, couples sometimes hire a photographer to snap all day.

Reception
Average: $10,500
Guerrilla: $300 to $30,000
Comment: This is the wild-card cost. Reception prices vary depending on whether a couple opts to, say, host a small dinner or rent out an entire bar.

Bathrooms Clean Up

$

NOT BAD

TV Mirror

Need another reason to gaze at your reflection? Try a television mirror. Evervue sells mirrors with built-in HDTVs starting at $945. The screen is invisible when turned off and can be hooked up to a laptop or DVD player for homeowners looking to catch up on new releases from the comfort of their tub. For those who want to skip jumbled cables, the company will add a wireless receiver for an additional $40.

$$

GETTING FANCY NOW

Therapeutic Shower

For some, the highlight of a soak is escaping the TV. Steamist's deluxe steam shower ($4,300) is about Zen relaxation, with a "chromotherapy" light (purple elicits harmony, the company says) and cartridges that release essential oils. Wasauna's Savona shower ($3,400), on the other hand, claims to boost nutrition. The firm says its filter uses vitamin C to remove chlorine from water and increase the bather's intake of the vitamin. A caveat: Replacing those filters and cartridges can get pricey.

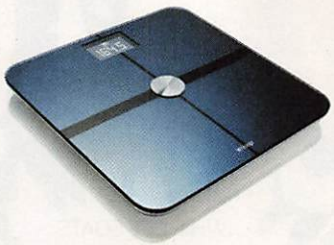
$$$

LIFE-CHANGING

At-Home Hotel Spa

Homeowners going all in on a bathroom spa often start with the tub, say designers. BainUltra, for one, makes soaking tubs that can be topped with a portable massage table. Creating a true spa vibe also involves fine-tuning the sound and feel of the room; a tinkling fountain is a relaxing touch, experts say, while a porcelain and river-rock floor cools tired feet. One thing unlikely to soothe: the price. A full spa makeover starts around $50,000—masseuse not included. *—Linda Lacina*

YOUR MONEY'S WORTH BATHROOM SCALES



▲ WORTH IT

Withings WiFi Body Scale, $160

Are you ready for beach season? Find out with this scale, which measures weight, fat mass and body-mass index. The scale automatically uploads your stats to the Web via Wi-Fi, and it helps users convert that data into spreadsheets to share with nutritionists or doctors.

▼ NOT WORTH IT

Alessi's SG75 Scale, $180

This stainless-steel scale is light on features; unlike many others in this price range, it only measures weight. The firm says the scale is intended to be "minimalist" and that its durable material and aesthetic set it apart from models with more capabilities. *—L.L.*

PHOTOGRAPH BY TYLER STABLEFORD/THE IMAGE BANK (LEFT)

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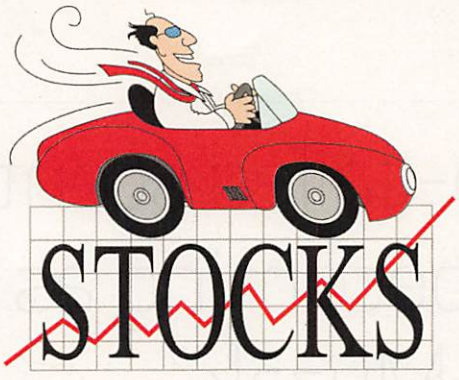

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BY JIM WALSH

MANNY BACKUS IS A soft-spoken chess prodigy obsessed with the stock market. Four years ago, he discovered a trading short-cut that produces up to $500 during the first hour the market opens. Stock market experts were amazed when the Los Angeles resident explained his secret to profitable stock picking even during a market crisis. Some questioned whether he gets illegal tips from an inside source. However, the facts show he developed an ingenious trading system that is...

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"So-called scent marketing is becoming as ubiquitous as Muzak."

450% Expected increase in spending on scent marketing (2012–17)

ANNE KADET is a senior writer at SmartMoney and the Metro Money columnist for *The Wall Street Journal.*

THE FOLKS WHO run the MRI unit at Florida Hospital Celebration Health are doing everything they can to make a body scan feel like a day at the beach. The changing rooms look like cabanas, beach sounds waft from the speaker system, and the imaging machine is disguised as a giant sand castle. The pièce de résistance? The place is perfumed with Ocean Breeze, a scent meant to evoke a seaside vacation.

That's not the only use Florida Hospital makes of aroma. Facilities VP Tim Burrill says the waiting lounge on each of the children's hospital's three floors is scented to match a theme. The savannah floor, for instance, smells like grass. The pleasant odors reduce stress, says Burrill, and boost business. The children's hospital is booked solid, and last-minute cancellations at the MRI unit are down 50 percent.

So-called scent marketing, the practice of enhancing an environment and boosting a brand with evocative scents, is becoming as ubiquitous as piped-in Muzak. Perhaps we should call it Smellzak. The strategy was first adopted by hotels and retailers, including Westin, known for its White Tea scent, and Abercrombie & Fitch, which blasts its customers with Fierce, a scent that smells just like an underage male model with a freshly shaved chest. But now, the practice is spreading to doggie-day-care outfits, law firms, museums and airports. Richard Weening, CEO of Prolitec, a firm that provides ambient scenting to roughly 30,000 locations, including 50 Goodwill stores and a chain of 35 senior-care facilities, says business is growing 50 percent annually.

Anytime Fitness, the nation's

largest coed fitness chain, recently introduced scent marketing in an effort to cultivate olfactory consistency and ensure that its facilities don't smell, well, too much like a gym. Brand coordinator Heather Rudolph says she asked provider ScentAir for an odor that was fresh, invigorating and neither masculine nor feminine. Choosing from 25 options culled from ScentAir's library of 2,000 odors, the gym settled on Inspire, a eucalyptus-mint fragrance. Franchisees say folks like what they smell; it helps sell memberships.

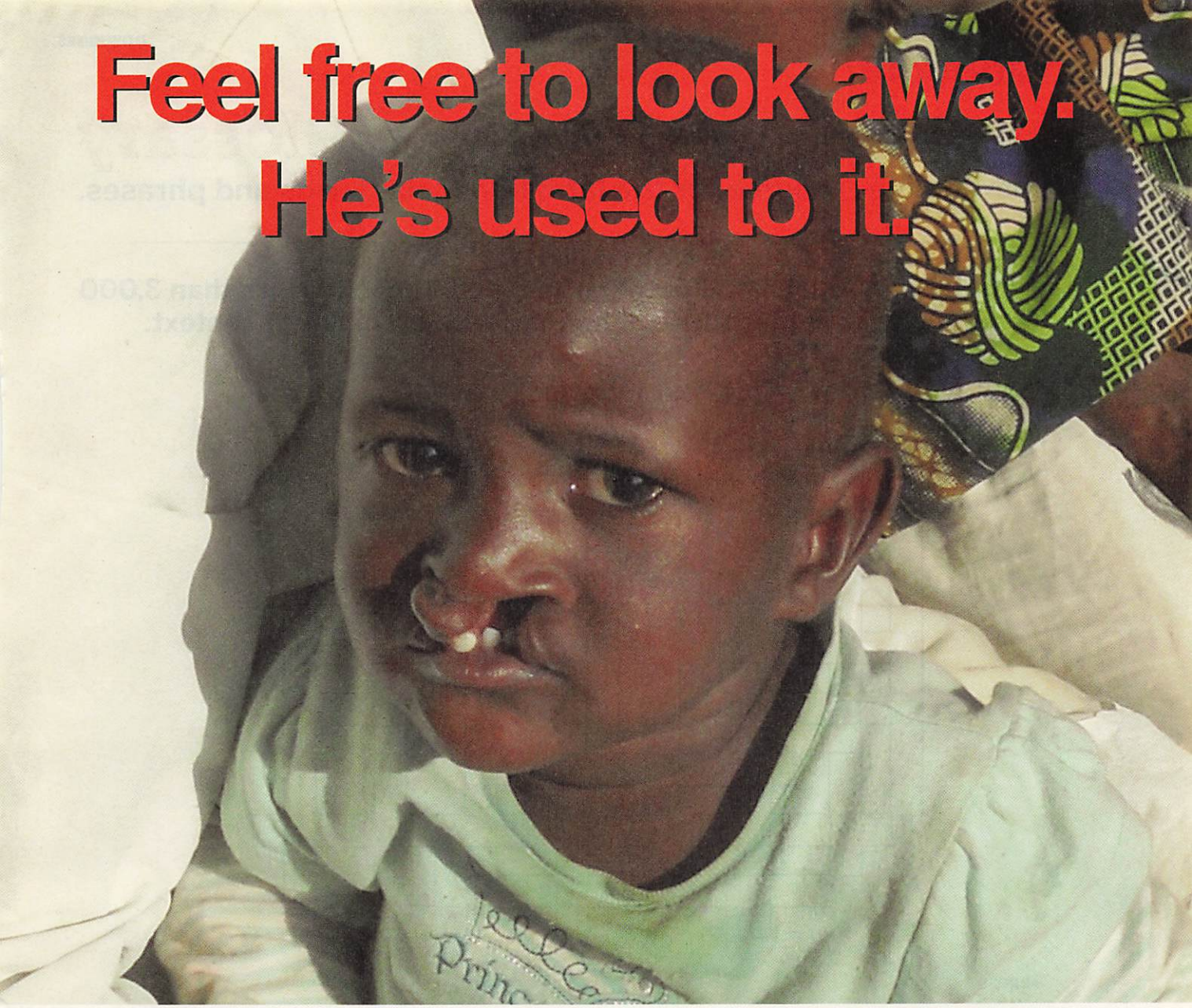
A strong scent can backfire, of course. When I stayed at TheHotel at Mandalay Bay in Las Vegas, I felt so overwhelmed by the spicy orange smell, I dreaded trips through the lobby, and swore I'd never return. (A spokesperson says the current scent, Lavender Ylang, gets "tremendously, overwhelmingly positive feedback from our guests.") Studies show that an incongruous scent can hurt sales. Still, in an age when you can do just about anything online, brick-and-mortar businesses are desperate to create a more compelling environment, and that means using scents.

But look on the bright side. Soon, you may be able to choose the smell of your own funeral. Service Corp., which owns 1,800 funeral homes and cemeteries, says it started using scent last year after research showed that women, who make 85 percent of funeral-arrangement decisions, are particularly responsive to good smells. You don't want to be too obvious when targeting women, says senior VP Phil Jacobs: "Scent is almost a covert way to do that." So far, funeral home directors choose from a long list of "fresh" scents, including Green Clover & Aloe. Still, there's no reason a client couldn't request a custom scent for a service. "If Mom was known for baking cookies, ScentAir has a baked-cookie scent!" says Jacobs. I'm feeling hungry already.

For more of Anne Kadet's Tough Customer columns, visit SmartMoney.com.

ILLUSTRATION BY JOHN KACHIK; COLUMNIST ILLUSTRATION BY ALEXANDRA COMPAIN-TISSIER/ART DEPARTMENT

Feel free to look away. He's used to it.



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INTRODUCING

SmartMoney Financial Glossary

The new online resource for the latest financial terms and phrases.

The SmartMoney Financial Glossary offers definitions of more than 3,000 words related to personal and high finance, with examples in context.

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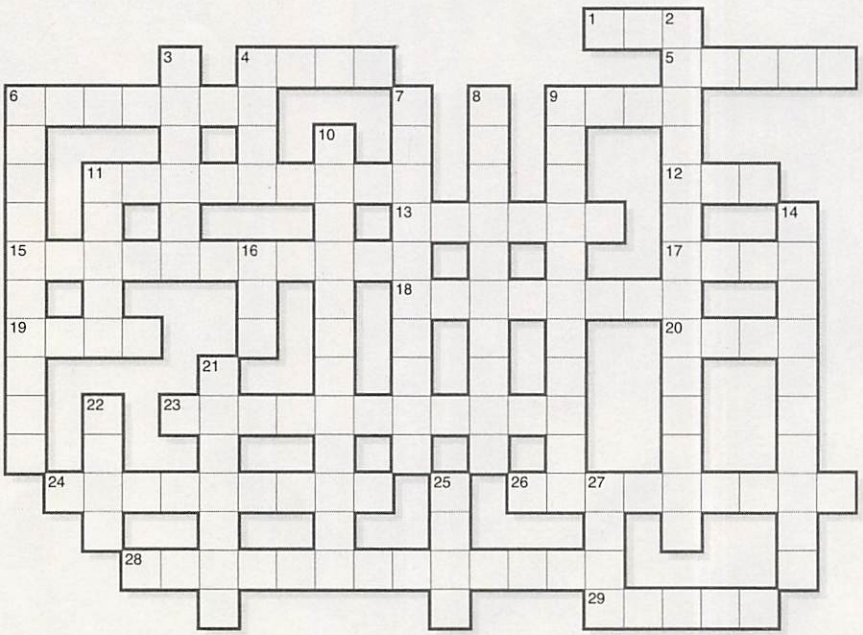

ACROSS

1. Total value of a country's goods and services: Abbr.
4. Type of IRA whose earnings are tax-free
5. Period in which stock prices rise
6. A business lists assets and debts on its ___ sheet
9. Common accounting method: Abbr.
11. Transaction in which one sells borrowed securities expecting prices to fall: 2 wds.
12. World organization that promotes economic cooperation between nations: Abbr.
13. Person who holds a lease
15. Time during which a debt may be paid without further interest or penalty: 2 wds.
17. Advice from a bearish broker
18. Futures market in which longer-term contracts have higher prices than near-term contracts
19. Right to take property until a debt is settled
20. Sales agents, for short
23. Current quoted price of a stock or bond: 2 wds.
24. Person who promises to settle another's debt if that person should default
26. It's levied on an heir who inherits a portion of an estate: 2 wds.
28. Investor in a business who does not participate in management: 2 wds.
29. Person in a transaction who receives money

DOWN

2. Document pledging to pay a sum of money by a specified date: 2 wds.
3. Money received for work or through investments
4. Security that invests in properties and mortgages: Abbr.
6. Short-term arrangement used until a permanent arrangement can be made: 2 wds.
7. Relation between the interest rate and the time to maturity of a debt: 2 wds.
8. Tactic designed to make a hostile takeover prohibitively expensive: 2wds.
9. The capital property of a business, such as buildings and equipment: 2 wds.
10. Corporate expense that rises and falls with production output: 2 wds.
11. Stock unit
14. Extremely rapid drop in the stock market: 2 wds.
16. Mutual fund that is traded on a stock exchange: Abbr.
21. Accounts ___ are moneys owed for goods or services
22. ___ laws prohibit certain business on Sunday
25. Single currency used by France, Germany, Spain and 14 other countries
27. Government program of 2008 created to curb the ongoing financial crisis: Abbr.

For the answers and more financial terms and phrases, visit the Financial Glossary. wordnik

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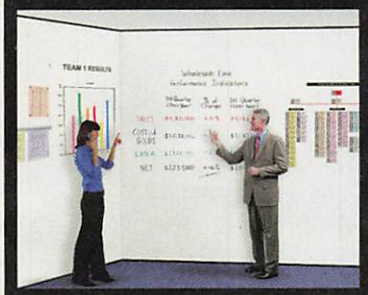

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$5 mil.
Annual revenue of bulletproof clothing industry

An On-Target Look

The Aim: For the man who lives dangerously—but still wants to look devil-may-care—Colombian designer Miguel Caballero offers a polo shirt with a little something extra up its sleeve: It's bulletproof. The 4-pound shirt's antiballistic panels promise to shield the wearer from a range of weaponry, though a version designed to withstand an Uzi costs a bit more than the one made to fend off a 9mm (prices range from $3,000 to $4,000 a shirt). The company, which calls itself the "Armani of bulletproof clothing," says its clothes are proven to work. In fact, most of its employees have been shot at while wearing the garments—it's part of the orientation process. Don't worry. A spokesperson assures us there have been no work-related casualties.

The Reality: No doubt even those in the highest-risk professions appreciate casual Fridays, but experts say Caballero wearers are paying dearly for the sartorial flair: Other companies sell vests offering the same level of protection for less than a third of the price. Plus, we can't help but wonder, who wants to spend weekends kicking back in a 4-pound T-shirt? (Caballero says bodyguards, heads of state and other VIPs are its primary market.) Still, even though the company's website declares, "Yes, it's bulletproof," there is a fine distinction here. The National Institute of Justice, which rates body-armor products, actually approves it for protection against some firearms—but not heavy-duty guns like rifles or AK-47s. A company general manager says, "Bullet-resistant is more accurate." —*Tania Karas*

Photograph by Jorge Vinueza/Archivolatino/Redux for SmartMoney

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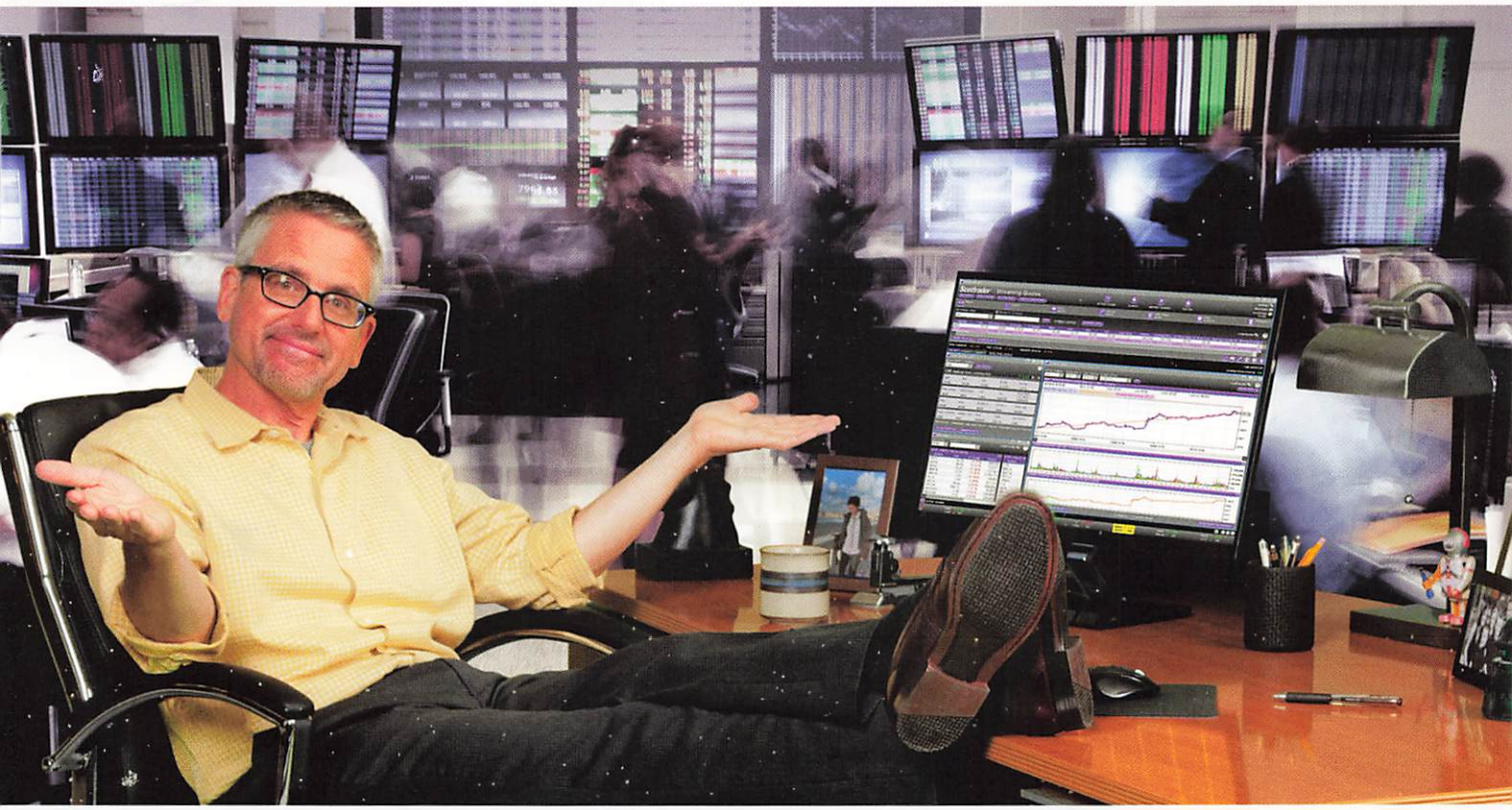

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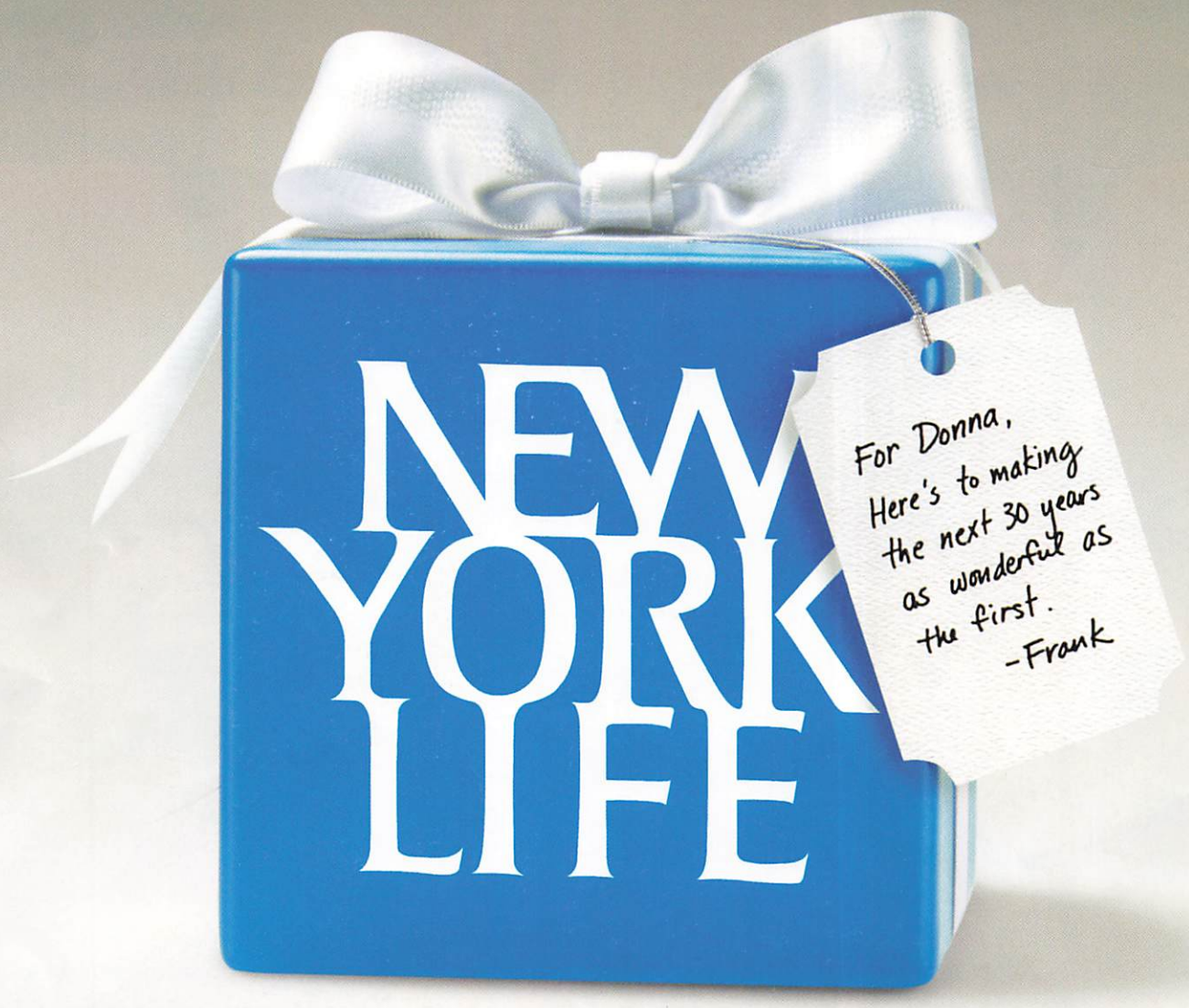

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